

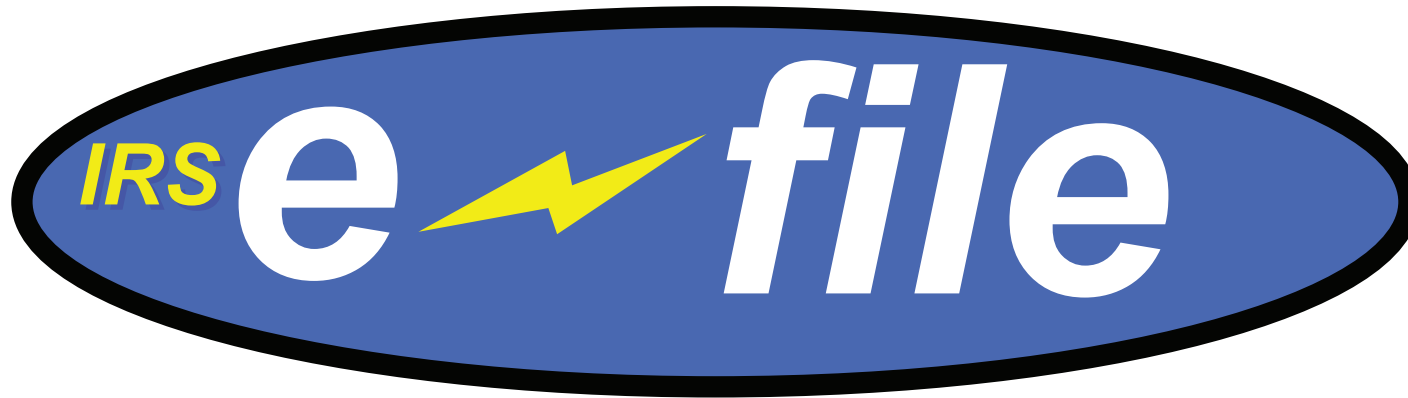


Individual Nationwide Analysis





ETA Tax Year 2006



October 2008

W&I Research Group 2

Project 5-07-08-2-056N



Research Goal

Title II of the *Restructuring and Reform Act of 1998* (RRA 98) set a goal for the Internal Revenue Service (IRS) to have at least 80 percent of all tax and information returns filed electronically by the year 2007. To realize this goal (albeit late), it is imperative that the IRS understand its markets, measure the success of past marketing efforts, and track changes in taxpayer behavior. In an effort by Electronic Tax Administration and Refundable Credits (ETARC) to increase the number of individual income tax returns filed electronically, ETARC officials have requested information on the flow of returns through the 2007 filing season based on demographics and status. This information will be used to target particular populations for future marketing efforts by the ETARC.



Business Objective

The overall business objective of this project is to provide a baseline measure of the attributes of the six major e-file market segments and to measure the progress in promoting electronic filing for Tax Year (TY) 2006 by answering specific questions and requests of the customer. Some of these questions repeat analysis previously conducted (for measurement of progress or changes); some elaborate upon previous research; and some introduce new questions. The report reflects all TY 2006 returns processed through processing cycle 52 of 2007. The report also analyzes data from the multi-year database.



Business Questions

- 1) Provide Excel spreadsheets showing the repeat rates and inter-modal migration rates for paper, ELF, and Online returns between TY 2005 and TY 2006. These tables will be done in the forward looking manner detailed in previous presentations.
- 2) Provide Excel spreadsheets that give descriptive statistics of the six market segments (paid/self and simple/intermediate/complex categories) for full TY 2006. The descriptive statistics will be the method of filing (also broken out by paper and V-code), age, filing status, AGI, balance due ranges, return full paid status, BOD code, use of direct deposit (refund only returns), use of direct debit (balance due only returns) and RAL/RAC indicators.
- 3) Provide Excel spreadsheets showing the differences in the profiles of taxpayers using each filing method and preparation method (Online (breakout Free Filers), ELF, V-code and hand-prepared paper) in each of the six market segments for full TY 2006. The descriptive statistics will be the same as used in question #2.



Business Questions

Continued . . .

- 4) Provide an analysis of the Mandated States (list provided on table 16) impact by state. Using the same demographic breakouts as in question #2, track growth overall from TY2000 to TY2006. Add the V-code indicator in the analysis to see how % of V-coders has dropped in relation to mandated states.
- 5) Provide an analysis of the States that offer Direct File/I-File (list provided on table 21) impact by state. Using the same demographic breakouts as in question #2, track growth overall from TY2000 to TY2006. Add the V-code indicator in the analysis to see how % of V-coders has dropped in relation to States that offer I-File.



Research Methodology

The data needed for this project was compiled from the Electronic Tax Administration Individual Master file (ETA IMF) marketing database. The database source for TY 2005 and TY 2006 to answer business questions # 2 and 3 was the Detroit-Computing Center (DCC); database source for TY 2000 to TY 2006 to answer business questions # 1, 4, and 5 was the Atlanta Server. The individual databases for multi-tax years were used for analysis on population data (i.e., no samples were used). Data analysis was performed using Humming Bird SQL software at DCC and SPSS® statistical software at the Atlanta Server, while Microsoft Excel® was used to table the output and make supplementary calculations. All data queries and analyses were conducted by one analyst and validated independently by another to ensure accuracy. The analysis addressed the current business questions for TY 2006 and included segmentation based on age, filing status, market segment, BOD, AGI range, state, filing method, preparation method, balance due or refund amount, direct debit or deposit and RAL/RAC indicator.



Business Question # 1

- **ETA asked Wage and Investment Planning Research and Analysis (WIPRA) to identify migration patterns of taxpayers between the different methods of filing for Tax Years 2002 through 2006. WIPRA compared the percentage of taxpayers by method of filing in each base TY (2002 through 2006) to the method of filing in the subsequent year (i.e., using a ‘forward-looking’ approach).**
- **The following pages provide table counts and row and column percentages for each migration between electronic, V-code, and paper filers. Table 1 is a general reference for historical individual return volumes. The breakdown on electronic filers to ELF, Online, and Free Filers are also shown later.**

Note: WIPRA used criteria V-indicator =1 (V-code filing) and TRDBTY = 0 (hand-prepared Paper filing) to do the query and match the ETA validation report as closely as possible on V-code filing counts for each year. The counts varied slightly; but the differences were insignificant (up to 122).



Table 1: Annual Total Individual Return Breakdown by ELF, Online, Free File, Telefile, V-code, and Hand-prepared Paper

<i>Base Tax Year</i>	<i>Total Returns</i>	<i>ELF</i>	<i>Online (no Free File)</i>	<i>Free File</i>	<i>Telefile</i>	<i>V-code</i>	<i>Hand-Pre.Paper</i>
2002	126,758,079	37,136,656 (29.3%)	11,768,218 (9.3%)		4,026,693 (3.2%)	44,144,203 (34.8%)	29,682,309 (23.4%)
2003	127,084,129	43,768,393 (34.4%)	13,951,689 (11.0%)		3,769,606 (3.0%)	40,428,047 (31.8%)	25,166,394 (19.8%)
2004	128,599,631	48,068,417 (37.4%)	17,095,878 (13.3%)		3,293,652 (2.6%)	40,931,283 (31.8%)	19,210,401 (14.9%)
2005	130,354,745	52,855,625 (40.5%)	16,471,115 (12.6%)	3,783,306 (2.9%)		38,336,964 (29.4%)	18,907,735 (14.5%)
2006	134,381,430	57,360,987 (42.7%)	18,741,012 (13.9%)	3,854,549 (2.9%)		36,559,559 (27.2%)	17,865,323 (13.3%)

Source: ETA IMF Marketing Database



Electronic Filers: Migration and Repeat Rate Percentages for TY 2002 through TY 2006

- Table 2 shows 80.6% of electronic filers in the base year 2002 repeated in the subsequent year 2003; the repeat rate increased to 84.0% in TY 2006, This represents a 3.4 percentage point increase over the five years.
- On average over the five year period, 9.3% of electronic filers switched to paper returns (6.9% to V-code and 2.4% to hand-prepared paper) in subsequent year, which represents about 5.5 million paper returns.
- Hand-prepared returns represents the lowest migration target compared to other filing methods; the 3.6% migration rate from TY 2002 to TY 2003 decreased to 1.8% from TY 2005 to TY 2006, a 1.8 percentage point decrease. V-code migration has a small 0.5 percentage point decrease over the same period.



Table 2: e-filers' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	e-file in the base year	e-filer's subsequent year filing method*				
		e-file**	Telefile	V-code	Hand-Pre.Paper	Didn't File
2002	48,904,874	39,416,892 (80.6%)	241,702 (0.5%)	3,358,301 (6.9%)	1,757,910 (3.6%)	4,130,069 (8.4%)
2003	57,720,082	47,284,328 (81.9%)	226,582 (0.4%)	4,199,303 (7.3%)	1,322,133 (2.3%)	4,687,736 (8.1%)
2004	65,164,295	53,954,590 (82.8%)		4,513,379 (6.9%)	1,335,414 (2.0%)	5,360,912 (8.2%)
2005	73,110,046	61,417,788 (84.0%)		4,641,506 (6.3%)	1,346,989 (1.8%)	5,703,763 (7.8%)
Average		82.3%		6.9%	2.4%	8.1%
2002-2006 change		3.4%		-0.5%	-1.8%	-0.6%

Source: ETA IMF Marketing Database

Note: * The method of filing columns show count and percentage of the base year returns by the method of filing in the subsequent year.

** e-file encompasses all ELF, online, and Free File returns.



V-code Users: Migration and Repeat Rate Percentages for TY 2002 through TY 2006

- Though the repeat rate remained almost the same over five years (except base year 2003), the total number of V-code repeaters decreased from 29.8 million in the TY 2002 to TY 2003 period to 25.9 million in the TY 2005 to TY 2006 period. (See Table 3.)
- Electronic filing represents the highest migration target. It increased from 19.9% in the base year 2002 to 20.9% in the base year 2005.
- Hand-prepared returns was the lowest migration target compared to other filing methods, starting at a rate of 4.4% from TY 2002 to TY 2003, and declining to 2.8% from TY 2005 to TY 2006.



Table 3: V-code Filers' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	V-code returns in the base year	V-code filer's subsequent year filing method*				
		e-file**	Telefile	V-code	Hand-Pre.Paper	Didn't File
2002	44,144,203	8,798,971 (19.9%)	29,364 (0.1%)	29,777,329 (67.5%)	1,938,351 (4.4%)	3,600,188 (8.2%)
2003	40,428,047	7,689,001 (19.0%)	20,542 (0.1%)	28,270,869 (69.9%)	1,103,214 (2.7%)	3,344,421 (8.3%)
2004	40,931,283	8,436,910 (20.6%)		27,467,316 (67.1%)	1,282,222 (3.1%)	3,744,835 (9.1%)
2005	38,336,964	8,013,065 (20.9%)		25,888,059 (67.5%)	1,089,414 (2.8%)	3,346,426 (8.7%)
Average		20.1%		68.0%	3.3%	8.6%
2002-2006 change		1.0%		0.1%	-1.5%	0.6%

Source: ETA IMF Marketing Database

Note: * The method of filing columns show count and percentage of the base year returns by the method of filing in the subsequent year.

** e-file encompasses all ELF, online, and Free File returns.



Hand-prepared papers: Migration and Repeat Rate Percentages for TY 2002 through TY 2006

- Though the hand-prepared paper repeat rate increased from 57.9% in the base year 2002 to 66.6% in the base year 2005, the total number of hand-prepared returns decreased from 17.2 million to 12.6 million in the period (see table 4).
- Migration to electronic filing is higher compared to V-code filing. There was a 0.7 percentage point increase on e-filing migration rate over five years. However, the total number of hand-prepared returns switching to e-filing decreased from 4.2 million in the base year 2002 to 2.8 million in the base year 2005.
- The migration rate to V-code filing decreased from 13.1% in the base year 2002 to 8.6% in the base year 2005 (3.9 million to 1.6 million).



Table 4: Hand-Prepared Paper Filers' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	Hand-pre. Papers in the base year	Hand-prepared paper filer's subsequent year filing method*				
		e-file**	Telefile	V-code	Hand-Pre.Paper	Didn't File
2002	29,682,309	4,18,886 (14.1%)	1,070,251 (3.6%)	3,882,001 (13.1%)	17,183,230 (57.9%)	3,367,941 (11.3%)
2003	25,166,394	3,825,609 (15.2%)	826,160 (3.3%)	3,925,670 (15.6%)	13,715,108 (54.5%)	2,873,847 (11.4%)
2004	19,210,401	2,695,732 (14.0%)		1,749,516 (9.1%)	12,686,919 (66.0%)	2,078,234 (10.8%)
2005	18,907,735	2,787,958 (14.7%)		1,624,776 (8.6%)	12,593,189 (66.6%)	1,901,812 (10.1%)
Average		14.5%		11.6%	61.3%	10.9%
2002-2006 change		0.7%		-4.5%	8.7%	-1.3%

Source: ETA IMF Marketing Database

Note: * The method of filing columns show count and percentage of the base year returns by the method of filing in the subsequent year.

** e-file encompasses all ELF, online, and Free File returns.



National inter-modal migration
and repeat rate analysis
on electronic filing break down
to ELF, Online, and Free Filing.



ELF users: Migration and Repeat Rate Percentages for TY 2002 through TY 2006

- Table 5 shows that 77.4% of ELF users in base year 2002 repeated in the subsequent year 2003; the repeat rate increased to 80.8% in TY 2006.
- 2.0 million (4.7%) ELF users in TY 2003 migrated to Online filing in the subsequent year 2004, which represents the highest increase percentage compared to other subsequent years.
- 0.8% of ELF users in TY 2004 used Free Filing in the subsequent year 2005; the migration rate to Free Filing for TY 2006 went up to 0.9%.
- Combining Online filing and Free Filing for TY 2006, the migration rate was 4.1%, which is lower compared to the migration rate of 4.7% for the base year 2003. However, 2.2 million ELF users in the base year 2005 migrated to Online filing/Free Filing in TY 2006.
- Though the migration rate to V-code filing decreased to 5.7% in the subsequent year 2006, the total number of ELF users who V-code filed in subsequent years went up from 2.4 million (base year 2002) to 3.0 million (base year 2005).
- The migration rate to hand-prepared paper filing has the highest percentage point decrease of 1.9 over the five years, compared to other filing methods.



Table 5: ELF Users' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	ELF returns in the base year	ELF user's subsequent year filing method*						
		ELF	Telefile	Free File	Online**	V-code	Hand-Pre. Paper	Didn't File
2002	37,136,656	28,738,611 (77.4%)	44,695 (0.1%)		1,404,513 (3.8%)	2,403,676 (6.5%)	1,296,749 (3.5%)	3,248,412 (8.7%)
2003	43,768,393	34,104,419 (77.9%)	45,070 (0.1%)		2,044,629 (4.7%)	2,948,365 (6.7%)	973,986 (2.2%)	3,651,924 (8.3%)
2004	48,068,417	38,312,683 (79.7%)		380,316 (0.8%)	1,525,568 (3.2%)	2,971,723 (6.2%)	879,966 (1.8%)	3,998,161 (8.3%)
2005	52,855,625	42,722,023 (80.8%)		470,917 (0.9%)	1,703,100 (3.2%)	3,006,822 (5.7%)	840,904 (1.6%)	4,111,859 (7.8%)
Average		79.0%			3.7%	6.3%	2.3%	8.3%
2002-2006 change		3.4%			-0.6%	-0.8%	-1.9%	-1.0%

Source: ETA IMF Marketing Database

Note: * The method of filing columns shows count and percentage of the base year returns by the method of filing in the subsequent year.

** Online filing does not include Free Filing.



Online users: Migration and Repeat Rate Percentages for TY 2002 through TY 2006

- Table 6 shows that 8.2 million (69.5%) of Online filers in the base year 2002 repeated in the subsequent year 2003. Combined with Free Filing, Online filing increased to 74.2% in TY 2006, a 4.7 percentage point increase over five years.
- The migration to ELF (1.1 million) from the base year 2002 to the subsequent year 2003 is greater than migration to V-code filing (9.5 million). But the migration to V-code filing went up to 1.5 million in the subsequent year 2005 and then went down to 1.4 million in the subsequent year 2006.
- The migration to hand-prepared paper is lowest compared to other filing methods. The migration of 3.9% in TY 2003 went down to 1.8% in TY 2006, a 2.1 percentage point decrease over 5 years.



Table 6: Online Users' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	Online returns in the base year	Online user's subsequent year filing method*						
		ELF	Telefile	Free File	Online**	V-code	Hand-Pre. Paper	Didn't File
2002	11,768,218	1,091,188 (9.3%)	197,007 (1.7%)		8,182,580 (69.5%)	954,625 (8.1%)	461,161 (3.9%)	881,657 (7.5%)
2003	13,951,689	1,169,868 (8.4%)	181,512 (1.3%)		9,965,412 (71.4%)	1,250,938 (9.0%)	348,147 (2.5%)	1,035,812 (7.4%)
2004	17,095,878	1,467,119 (8.6%)		1,533,978 (9.0%)	10,734,926 (62.8%)	1,541,656 (9.0%)	455,448 (2.7%)	1,362,751 (8.0%)
2005	16,471,115	1,369,592 (8.3%)		631,232 (3.8%)	11,595,986 (70.4%)	1,402,040 (8.5%)	303,210 (1.8%)	1,169,055 (7.1%)
Average		8.6%			68.5%	8.7%	2.7%	7.5%
2002-2006 change		-1.0%			0.9%	0.4%	-2.1%	-0.4%

Source: ETA IMF Marketing Database

Note: * The method of filing columns shows count and percentage of the base year returns by the method of filing in the subsequent year.

** Online filing does not include Free Filing.



V-code filers: Migration and Repeat Rate Percentages for TY 2002 through TY 2006

- Though the repeat rate (69.9%) to the subsequent year 2004 is highest compared to other subsequent years, the total number of V-code repeaters went down from 29.8 million in TY 2003 to 25.9 million in TY 2006 (see table 7).
- The migration to ELF is highest compared to other filing methods. The migration rate (16.2%) in the subsequent year 2003 went down to 14.9% in the subsequent year 2006, a 1.3 percentage point decrease over 5 years.
- The migration rate (3.7%) to Online filing in the subsequent year 2003 went up to 6.0% (combined with Free Filing) in the subsequent year 2006, a 2.3 percentage point increase over 5 years.
- The migration to hand-prepared paper is lowest compared to other filing methods, except the subsequent year 2003. 1.9 million (4.4%) V-code filers in TY 2002 migrated to hand-prepared paper in the subsequent year 2003; and it went down to 1.1 million (2.8%) in the subsequent year 2006, a 1.5 percentage point decrease over five years.



Table 7: V-code Filers' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	V-code returns in the base year	V-code filer's subsequent year filing method*						
		ELF	Telefile	Free File	Online**	V-code	Hand-Pre. Paper	Didn't File
2002	44,144,203	7,170,201 (16.2%)	29,364 (0.1%)		1,628,770 (3.7%)	29,777,329 (67.5%)	1,938,351 (4.4%)	3,600,188 (8.2%)
2003	40,428,047	5,954,020 (14.7%)	20,542 (0.1%)		1,734,981 (4.3%)	28,270,869 (69.9%)	1,103,214 (2.7%)	3,344,421 (8.3%)
2004	40,931,283	6,328,860 (15.5%)		283,947 (0.7%)	1,824,103 (4.5%)	27,467,316 (67.1%)	1,282,222 (3.1%)	3,744,835 (9.1%)
2005	38,336,964	5,720,877 (14.9%)		332,790 (0.9%)	1,959,398 (5.1%)	25,888,059 (67.5%)	1,089,414 (2.8%)	3,346,426 (8.7%)
Average		15.3%			4.4%	68.0%	3.3%	8.6%
2002-2006 change		-1.3%			1.4%	0.1%	-1.5%	0.6%

Source: ETA IMF Marketing Database

Note: * The method of filing columns shows count and percentage of the base year returns by the method of filing in the subsequent year.

** Online filing does not include Free Filing.



Hand-prepared paper filers: Migration and Repeat Rate Percentages for TY 2002 through TY 2006

- Though the repeat rate for hand-prepared returns went up from 57.9% in the subsequent year 2003 to 66.6% in the subsequent year 2006, the total number of hand-prepared returns went down from 17.2 million to 12.6 million (see Table 8).
- The migration to V-code filing is highest compared to other filing methods. However the migration rate of 13.1% in the subsequent year decreased to 8.6% in the subsequent year 2006, a 4.5 percentage point decrease over five years.
- The migration rate to ELF of 9.3% (2.8 million) in the subsequent year 2003 decreased to 8.3% (1.6 million) in the subsequent year 2006.
- The migration rate to Online filing of 4.8% (1.4 million) in the subsequent year 2003 went up to 6.4% (combined with Free Filing) in the subsequent year 2006. However, the total number of hand-prepared paper filers migrating to Online filing went down from 1.4 million to 1.2 million.



Table 8: Hand-Prepared Paper Filers' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	Hand-Pre.returns in the base year	Hand prepared paper filer's subsequent year filing method*						
		ELF	Telefile	Free File	Online**	V-code	Hand-Pre. Paper	Didn't File
2002	29,682,309	2,752,624 (9.3%)	1,070,251 (3.6%)		1,426,262 (4.8%)	3,882,001 (13.1%)	17,183,230 (57.9%)	3,367,941 (11.3%)
2003	25,166,394	2,294,422 (9.1%)	826,160 (3.3%)		1,531,187 (6.1%)	3,925,670 (15.6%)	13,715,108 (54.5%)	2,873,847 (11.4%)
2004	19,210,401	1,600,772 (8.3%)		380,928 (2.0%)	714,032 (3.7%)	1,749,516 (9.1%)	12,686,919 (66.0%)	2,078,234 (10.8%)
2005	18,907,735	1,565,219 (8.3%)		462,719 (2.4%)	760,020 (4.0%)	1,624,776 (8.6%)	12,593,189 (66.6%)	1,901,812 (10.1%)
Average		8.8%			4.4%	11.6%	61.3%	10.9%
2002-2006 change		-1.0%			1.4%	-4.5%	8.7%	-1.3%

Source: ETA IMF Marketing Database

Note: * The method of filing columns shows count and percentage of the base year returns by the method of filing in the subsequent year.

** Online filing does not include Free Filing.



Table 9: Telefile users' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	Telefile returns in the base year	Telefile user's subsequent year filing method*						
		ELF	Telefile	Free File	Online**	V-code	Hand-Pre. Paper	Didn't File
2002	4,026,693	314,230 (7.8%)	2,428,289 (60.3%)		291,196 (7.2%)	159,108 (4.0%)	501,170 (12.4%)	332,700 (8.3%)
2003	3,769,606	290,259 (7.7%)	2,220,366 (58.9%)		352,000 (9.3%)	218,612 (5.8%)	391,203 (10.4%)	297,166 (7.9%)
2004	3,293,652	396,226 (12.0%)		644,602 (19.6%)	494,327 (15.0%)	323,418 (9.8%)	1,142,157 (34.7%)	292,922 (8.9%)

Source: ETA IMF Marketing Database

Note: * The method of filing columns shows count and percentage of the base year returns by the method of filing in the subsequent year.

** Online filing does not include Free Filing.

- The migration rate to hand-prepared paper is highest compared to other filing methods. After the Telefile program was closed, the migration rate (34.7%) to hand-prepared paper in the subsequent year 2005 was close to the combined migration rate of Online filing and Free Filing (15.0% and 19.6%).



Table 10: Free File users' National Inter-Modal Migration and Repeat Rate for TY 2002 through TY 2006

Base Tax Year	Free File returns in the base year	Free File user's subsequent year filing method*						
		ELF	Telefile	Free File	Online**	V-code	Hand-pre. paper	Didn't file
2005	3,783,306	390,152 (10.3%)		1,284,781 (34.0%)	1,250,005 (33.0%)	232,644 (6.1%)	202,875 (5.4%)	422,849 (11.2%)

Source: ETA IMF Marketing Database

Note: * The method of filing columns shows count and percentage of the base year returns by the method of filing in the subsequent year.

** Online filing does not include Free Filing.

- The repeat rate (34.0%) is close to the migration rate (33.0%) to Online filing in the subsequent year 2006.
- The filing method with the next highest migration rate (10.3%) after Online filing is ELF; the hand-prepared paper migration has the lowest migration rate at 5.4% .



Other Findings on National Inter-Modal Migration and Repeat Filing

- In the period TY 2002 – TY 2006, repeat rates on ELF is highest for each base year; combined online filing and Free Filing repeat rates comes next highest for each base year; then V-code filing repeat rate comes next. The hand-prepared paper repeat rate is lowest compared to other filing methods.
- The migration rate to V-code filing from other filing methods is highest. The migration rate from V-code filing to ELF is much higher, compared to combined Online filing and Free Filing.
- The lowest migration rate is to hand-prepared paper from other filing methods.
- The total number of ELF users who did not file in the subsequent year increased from 3.2 million in the base year 2002 to 4.1 million in the base year 2005.
- The total number of taxpayers who filed hand-prepared returns in the base year and did not file in the subsequent year decreased from 3.4 million in the base year 2002 to 1.9 million in the base year 2005.



Question # 2

**Descriptive statistics
of six market segments and
filing methods – TY 2006**

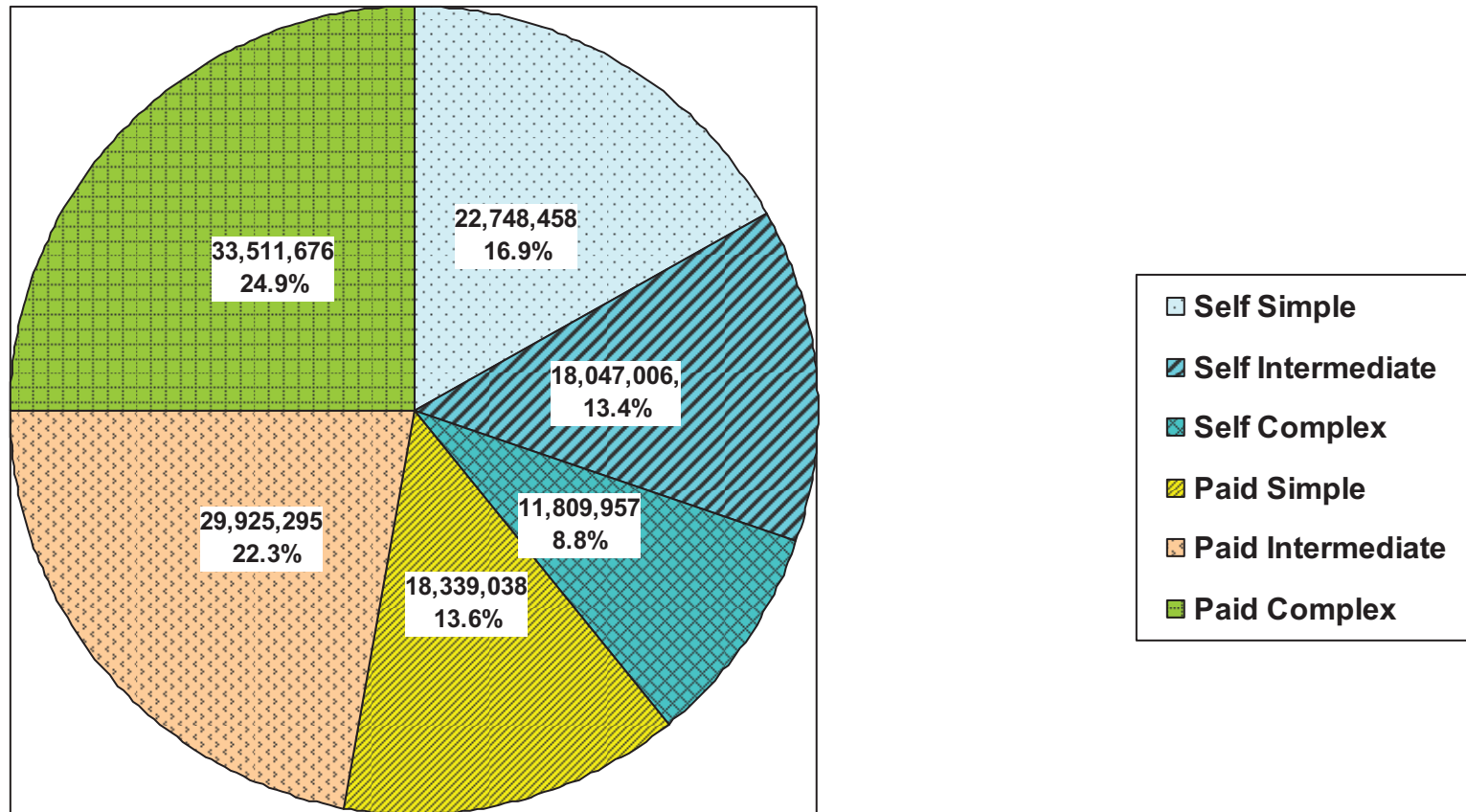


Market Segment Definitions

- **Self-Prepared Return** - there was no paid-preparer identification number on the return.
- **Paid-Preparer Return** - there was a paid-preparer identification number on the return.
- **Simple** - Form 1040EZ, and Form 1040 or Form 1040A without any schedules.
- **Intermediate** - Form 1040A with Schedule 1, Child Tax Credit or Education Credit, EIC, or Form 1040 with Schedules A, B, D, Child Tax Credit or Education Credit, or EIC.
- **Complex** - Form 1040 with Schedules C, E, F or other schedules and all other specific Forms 1040, e.g., 1040 PR, etc.



Volume and Percentage of Returns by Market Segment for TY 2006



Source: ETA IMF Marketing Data Base

Approximately 61% of all returns are done by paid-preparers.

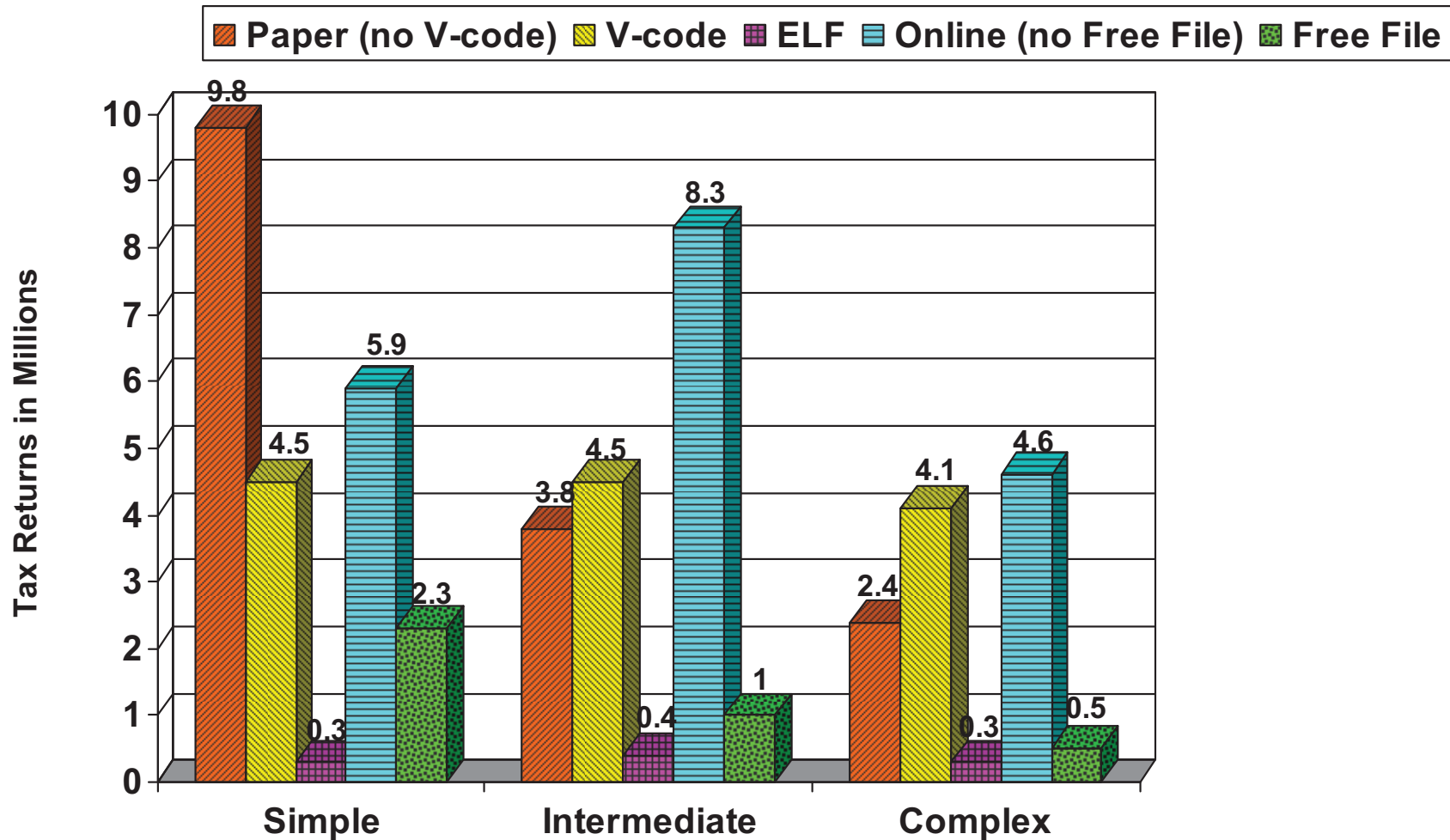


Filing Method Trends

- Paid-preparers had higher percentages of V-coders than self-preparers for simple and complex returns.
- Of the simple, self-prepared returns, 42.9% were filed on paper.



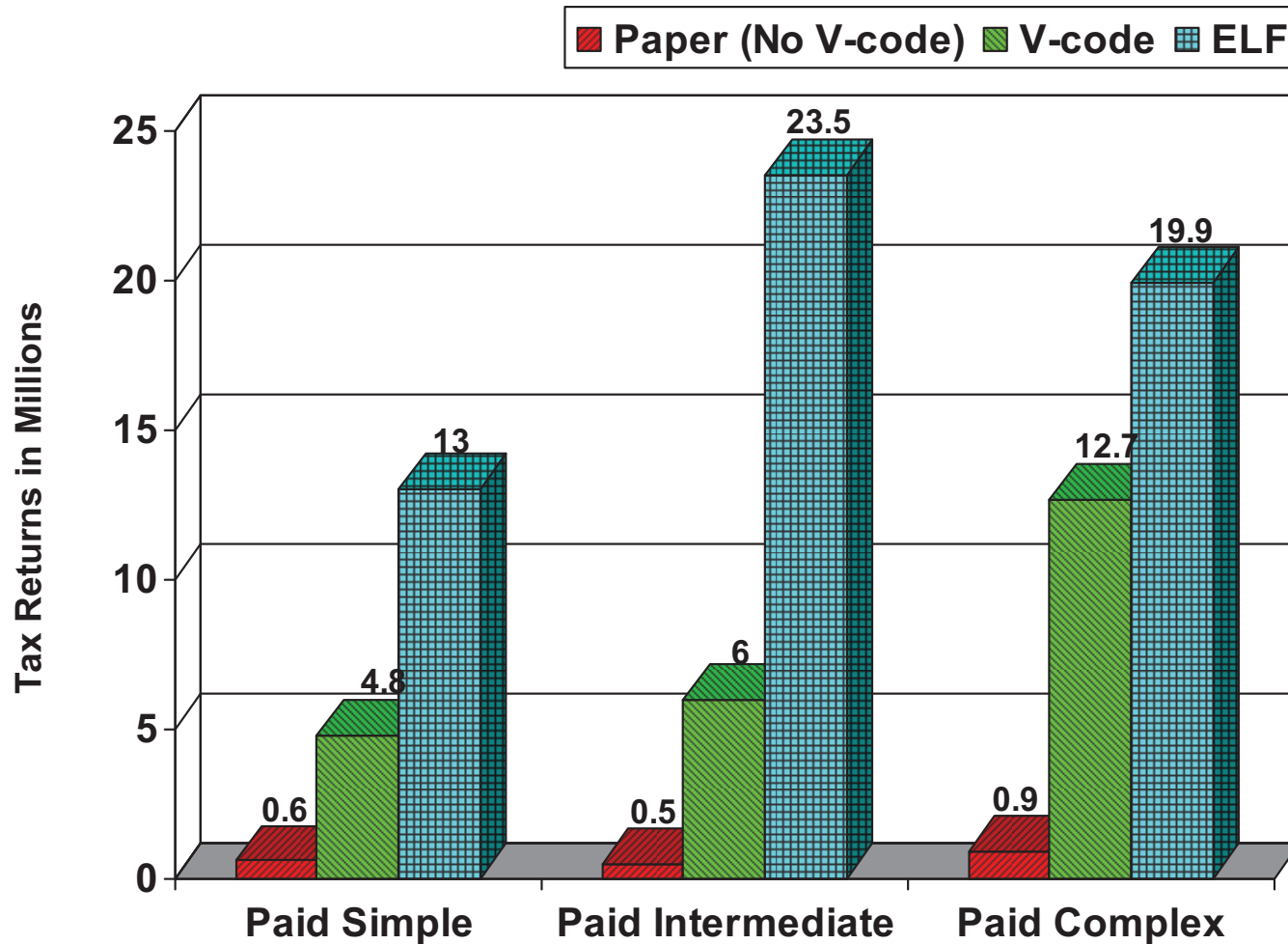
Number of Self-Prepared Returns by Filing Method: TY 2006



Source: ETA IMF Marketing Data Base



Number of Paid-Prepared Returns by Filing Method: TY 2006



Source: ETA IMF Marketing Data Base

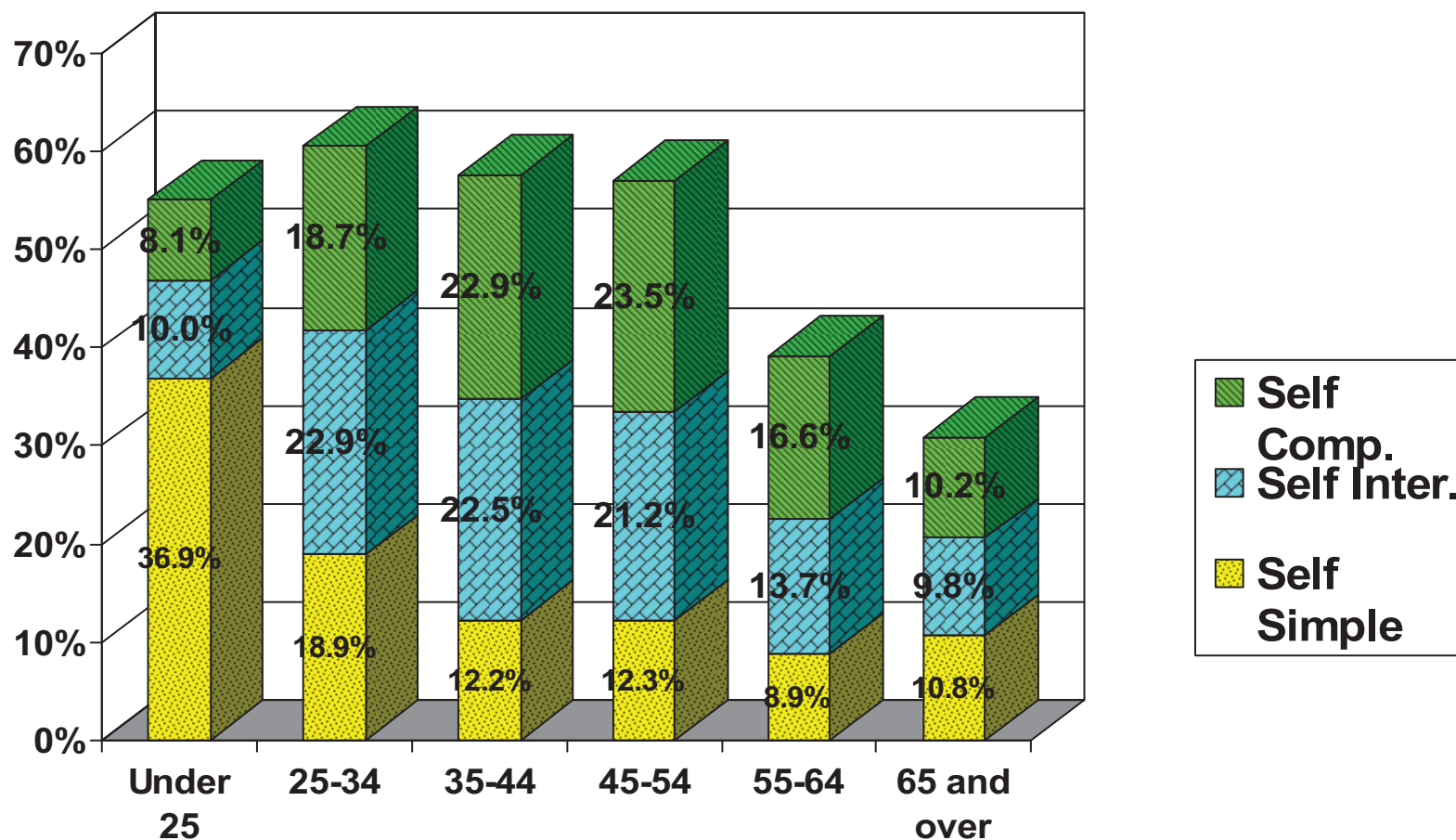


Summary of Findings on Age Distribution in the Six Market Segments: TY 2006

- ☐ Almost 67.0% of returns in the 25-54 taxpayer age group are in the self-intermediate market segment. This compares to 60.0% of returns in the paid-intermediate market segment.
- ☐ 37.0% of taxpayers under 25 years of age are in the self-simple market segment. This compares to 31.7% of returns in the paid-simple market segment.
- ☐ 62.4% of returns in the 35-64 taxpayer age group are in the paid-complex market segment, compared to 50.6% of all market segments.



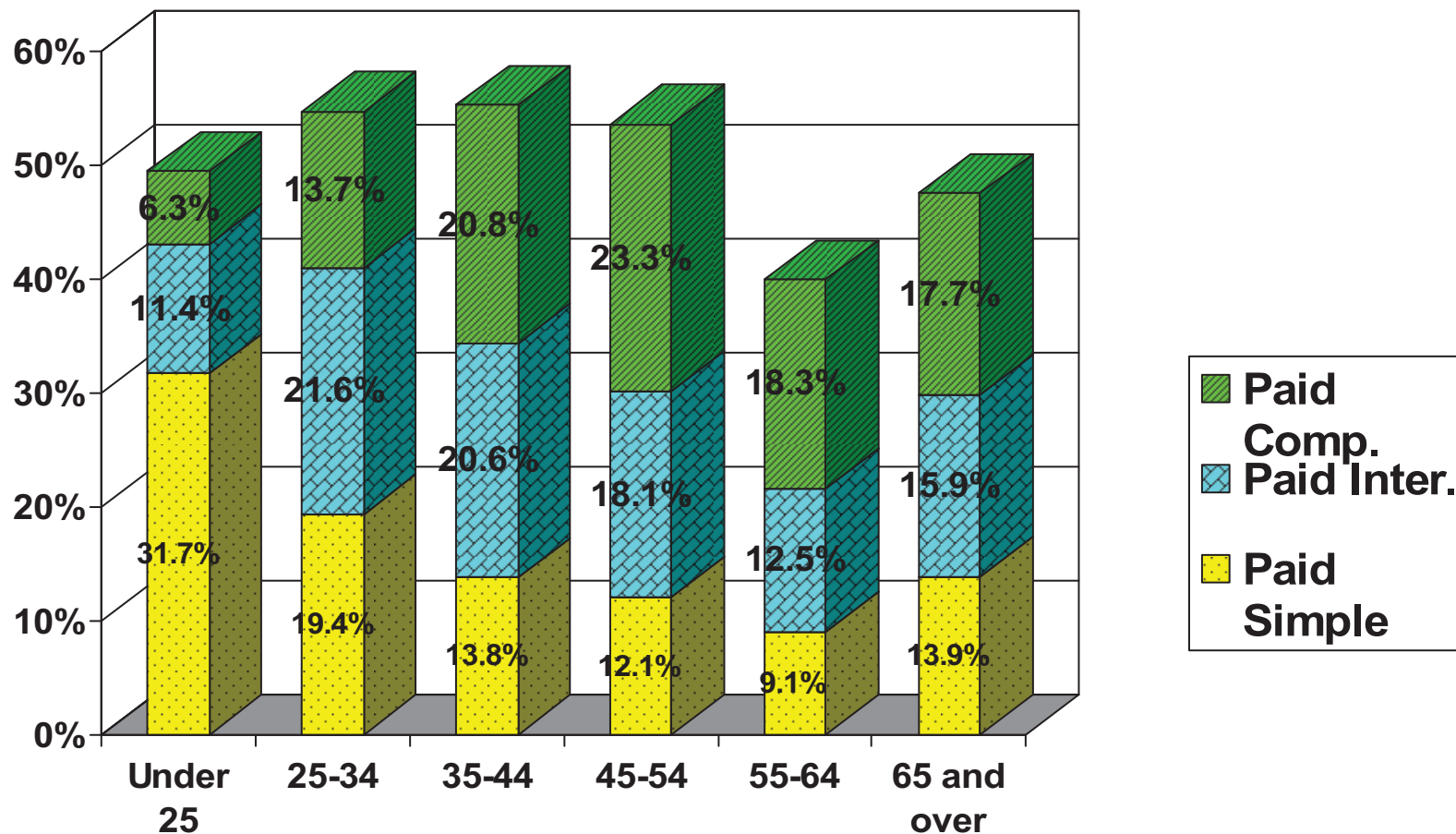
Percentage of Self-Prepared Returns by Age: TY 2006



Source: ETA IMF Marketing Data Base



Percentage of Paid-Prepared Returns by Age TY 2006



Source: ETA IMF Marketing Data Base

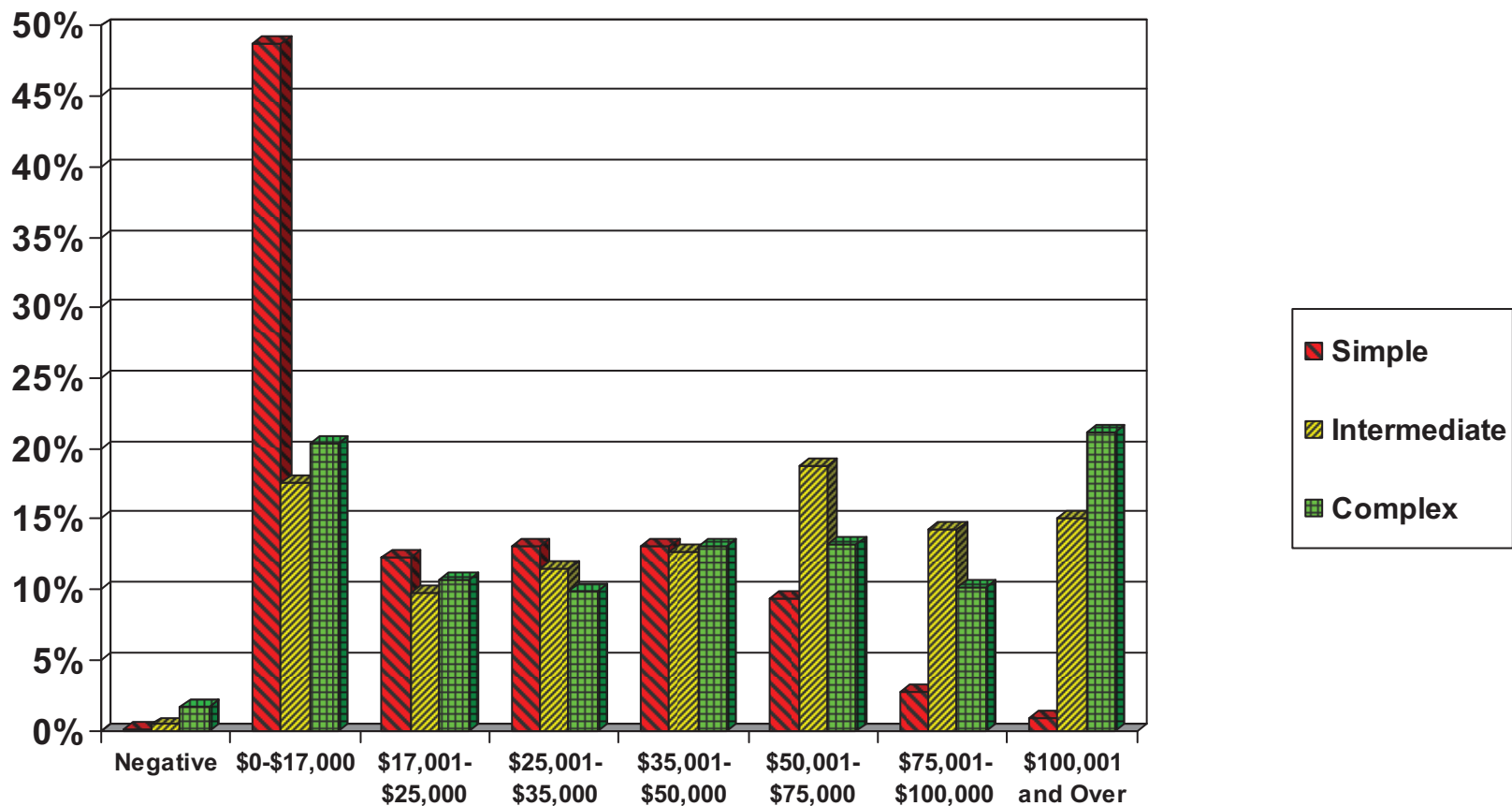


Summary of Findings on AGI Distribution on the Six Market Segments: TY 2006

- ❑ The self-simple market segment has the highest percentage (48.7%) of taxpayers in the low income range of \$0-\$17,000. The paid-simple market segment has 44.1% of taxpayers in the same low income range.
- ❑ The paid-complex market segment has the highest percentage (23.2%) of taxpayers with income \$100,000 and over, compared to the self-complex market segment which has approximately 21.1% of taxpayers with income \$100,000 and over.



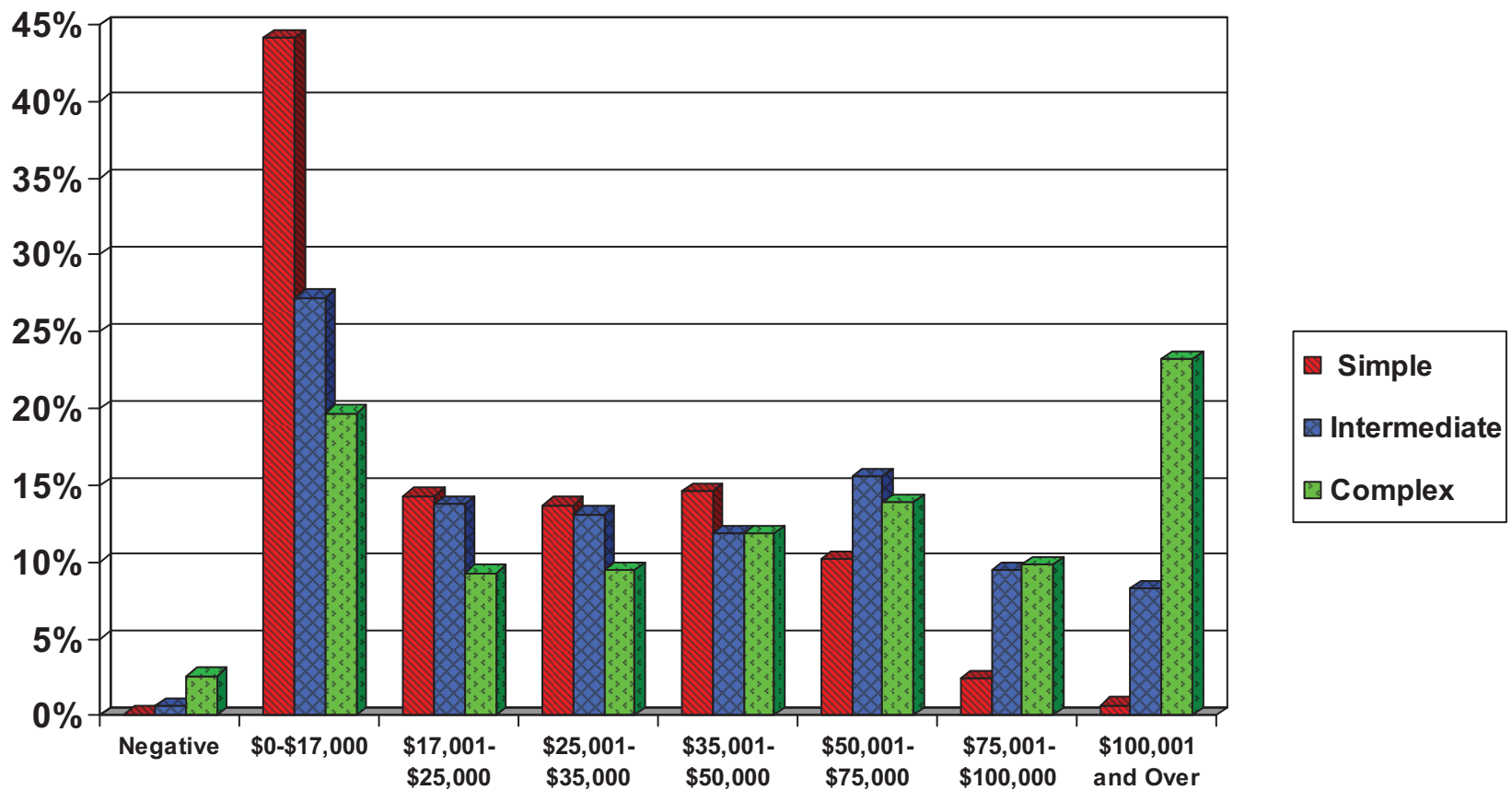
Percentage of Self-Prepared Returns by AGI TY 2006



Source: ETA IMF Marketing Data Base



Percentage of Paid-Prepared Returns by AGI TY 2006

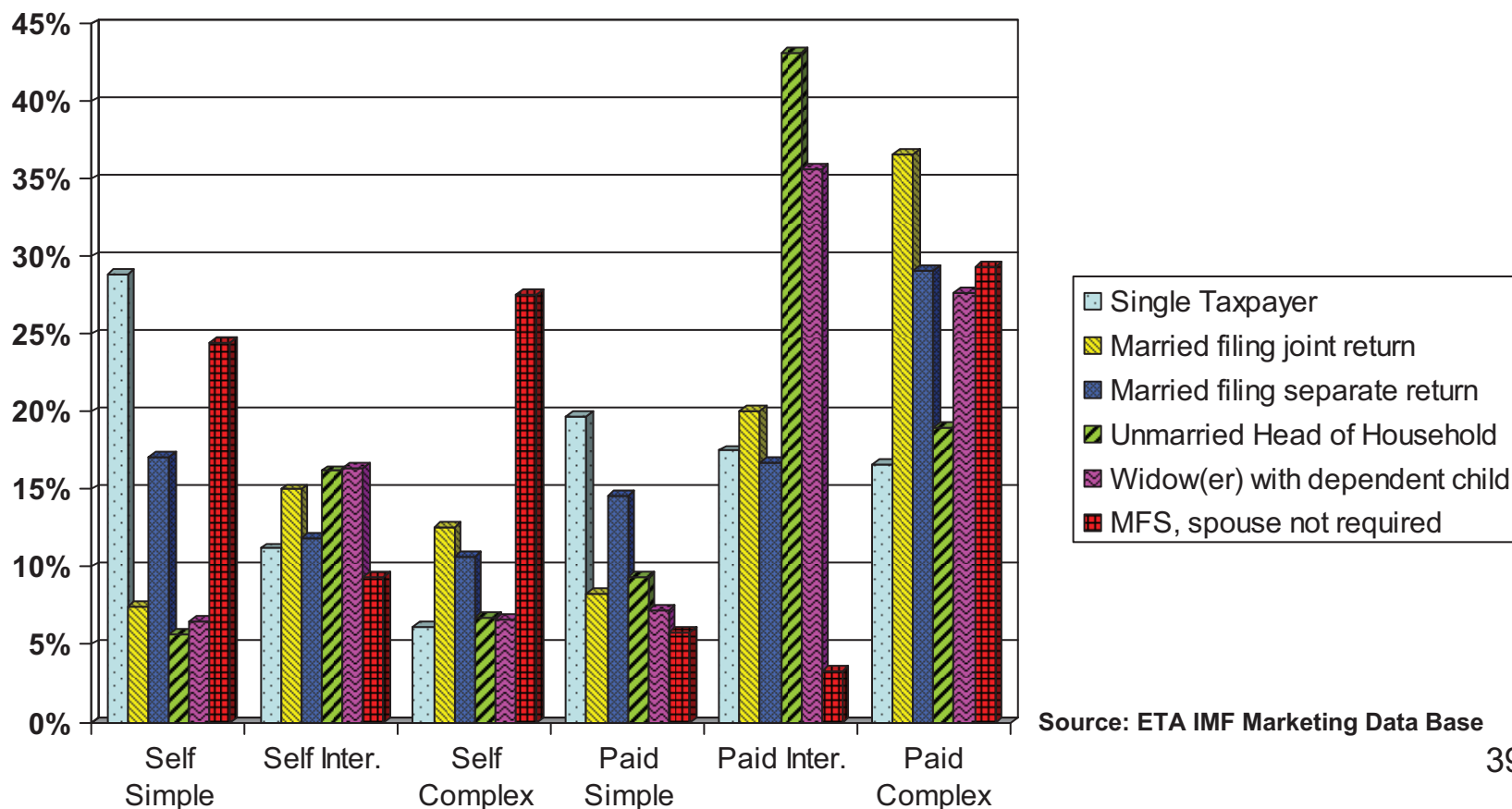


Source: ETA IMF Marketing Data Base



Percentage of Returns by Market Segment and by Filing Status: TY 2006

The unmarried head of household category has the highest percentage (43.1%) on paid-prepared intermediate returns. The married filing joint return category has the highest percentage (36.6%) on paid-prepared complex returns. The single taxpayer category has the highest percentage (28.9%) on self-prepared simple returns.



Source: ETA IMF Marketing Data Base



Returns Percentage by Operating Division in Each Market Segment: TY 2006

The percentages of W & I and SB/SE in the respective return type for self-prepared and paid-prepared sections are similar. The W & I operating division has 70.2%, while the SB/SE operating division has 29.8%.

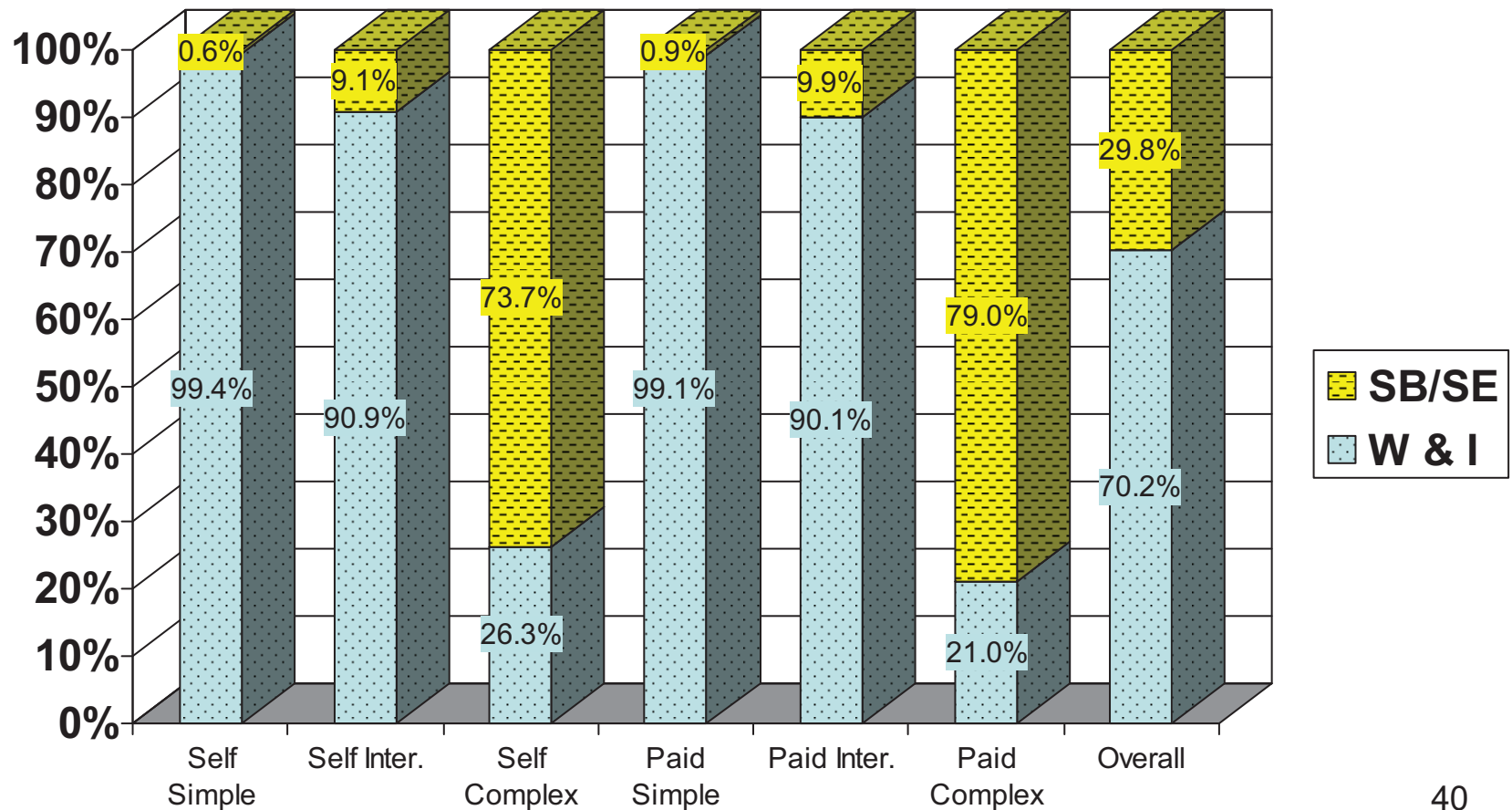




Table 11: Percent of Returns by Balance Due or Refund Range for Each Market Segment

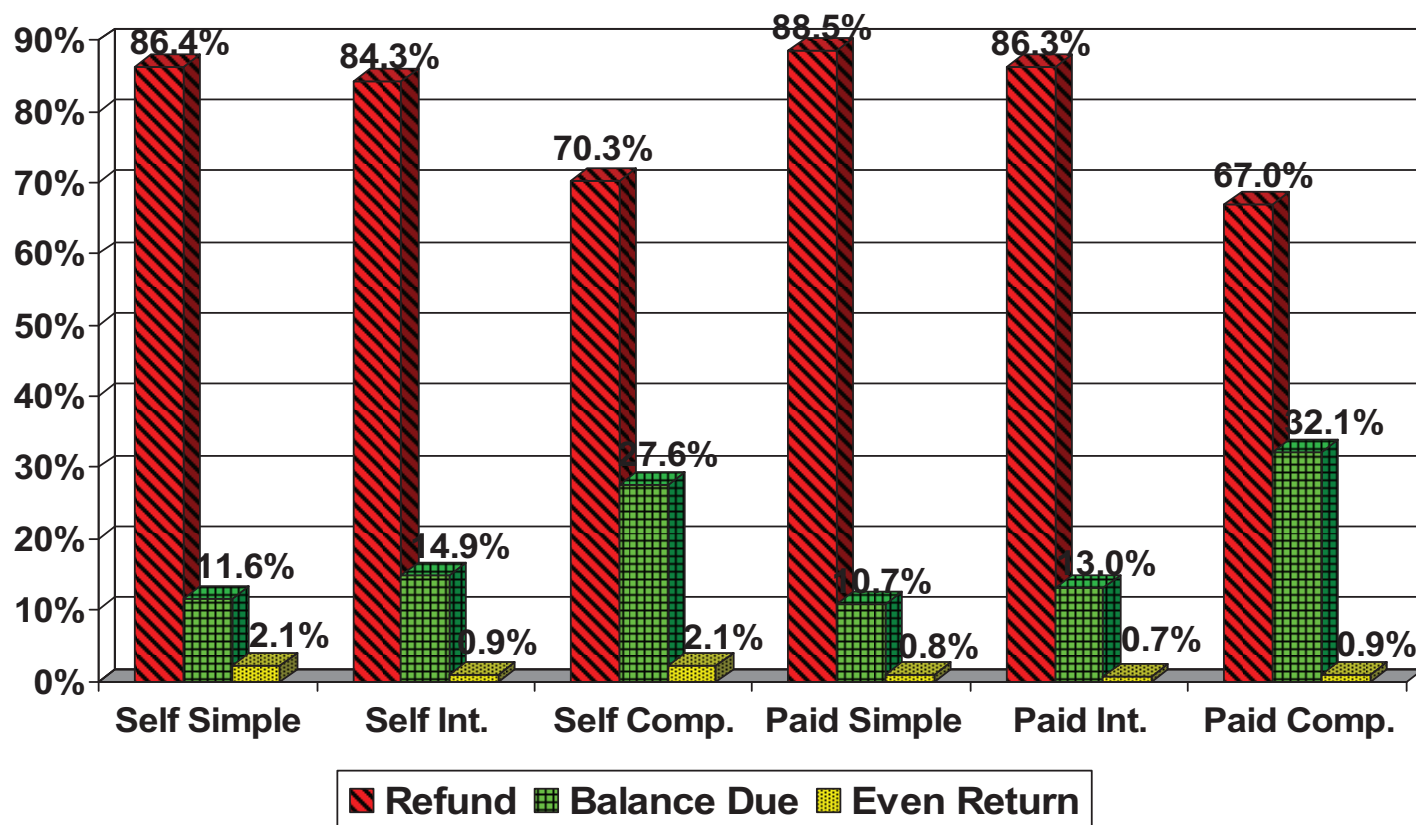
Balance Due or Refund Range	Self Simple	Self Int.	Self Comp.	Paid Simple	Paid Int.	Paid Comp.	All Returns
Even Return	2.1%	0.9%	2.1%	0.8%	0.7%	0.9%	1.1%
Balance Due Under \$500	6.8%	5.7%	8.2%	5.8%	4.9%	7.4%	6.3%
Balance Due \$500-\$1499	3.1%	4.6%	6.9%	3.0%	3.9%	7.1%	4.8%
Balance Due \$1500-\$2499	0.9%	2.0%	3.5%	1.0%	1.7%	3.9%	2.2%
Bal. Due \$2500 and over	0.8%	2.6%	9.0%	0.9%	2.6%	13.7%	5.4%
Refund Under \$500	42.6%	11.3%	12.0%	34.0%	10.7%	11.5%	19.7%
Refund \$500-\$1499	31.5%	20.6%	17.6%	33.9%	16.8%	14.0%	21.5%
Refund \$1500-\$2499	7.0%	15.1%	11.3%	10.2%	13.1%	10.1%	11.0%
Refund \$2500 and over	5.3%	37.3%	29.4%	10.4%	45.7%	31.5%	27.9%

Source: ETA IMF Marketing Data Base

- For intermediate and complex returns (regardless of preparer type), the largest percentage have a refund of \$2,500 and over.
- For simple returns (regardless of preparer type), the largest percentage have a refund under \$500.
- The paid-complex market segment has the largest percentage of returns with a balance due \$2,500 and over (13.7%).



Refund and Balance Due Returns by Market Segment: TY 2006

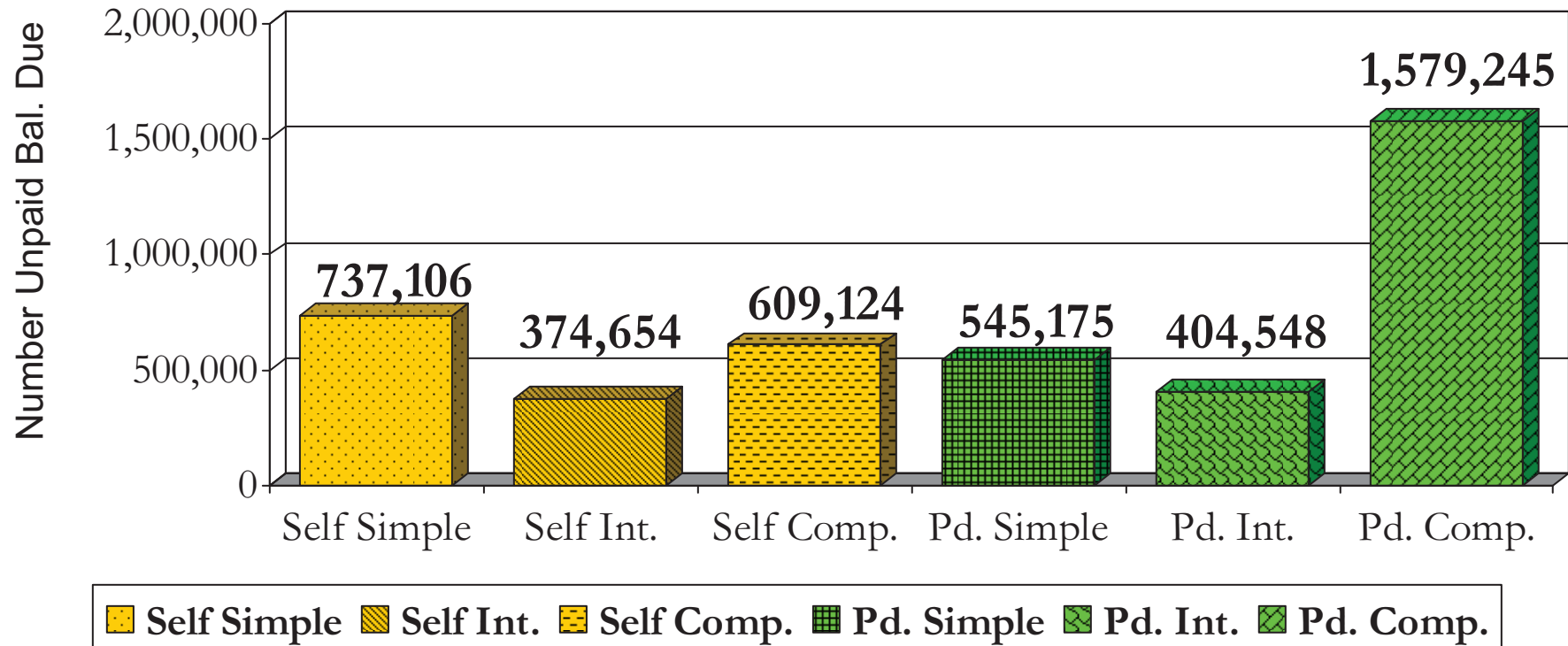


Source: ETA IMF Marketing Data Base

- Complex returns (self and paid) have a higher percentage with a balance due.



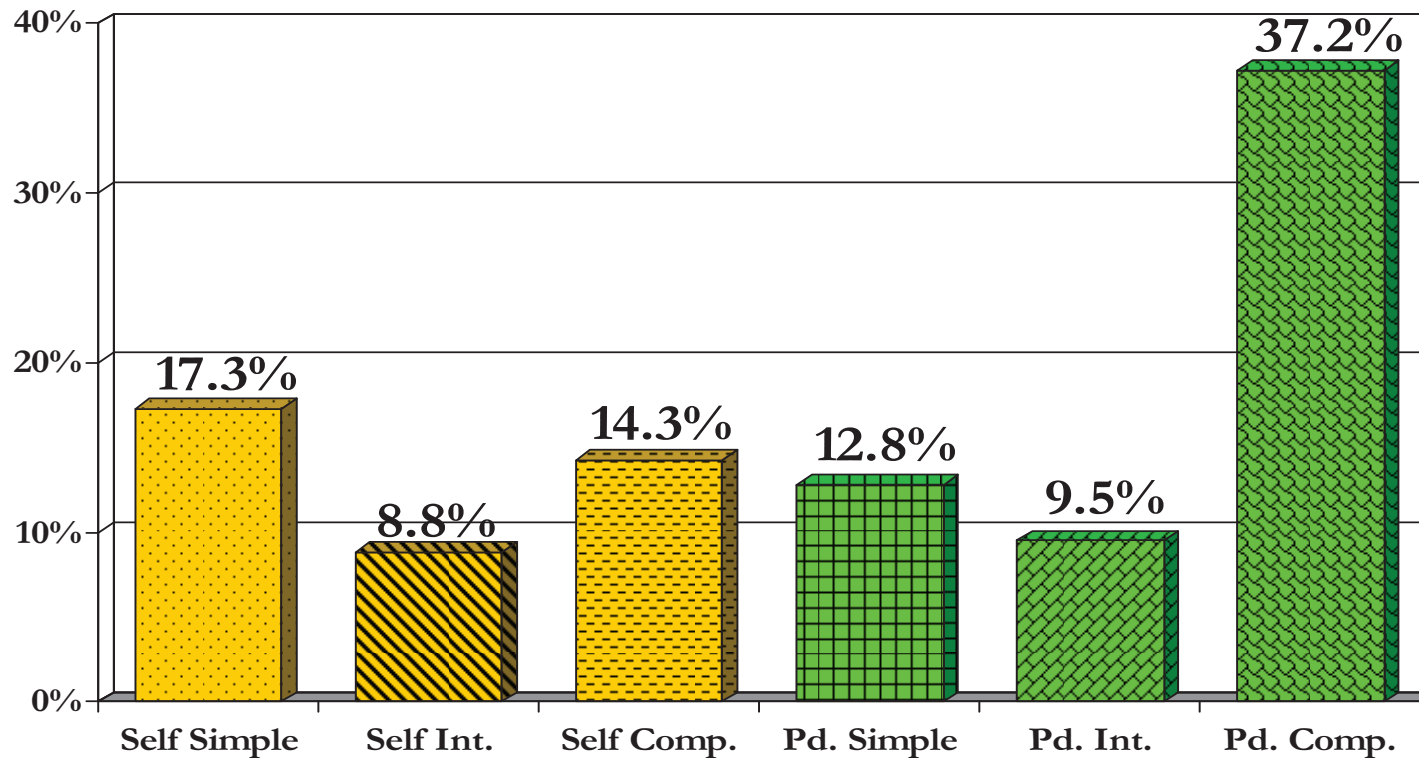
Number of Unpaid Balance Due Returns by Market Segment: TY 2006



Source: ETA IMF Marketing Data Base



Overall Percent of Unpaid Balance Due Returns in Each Market Segment TY 2006



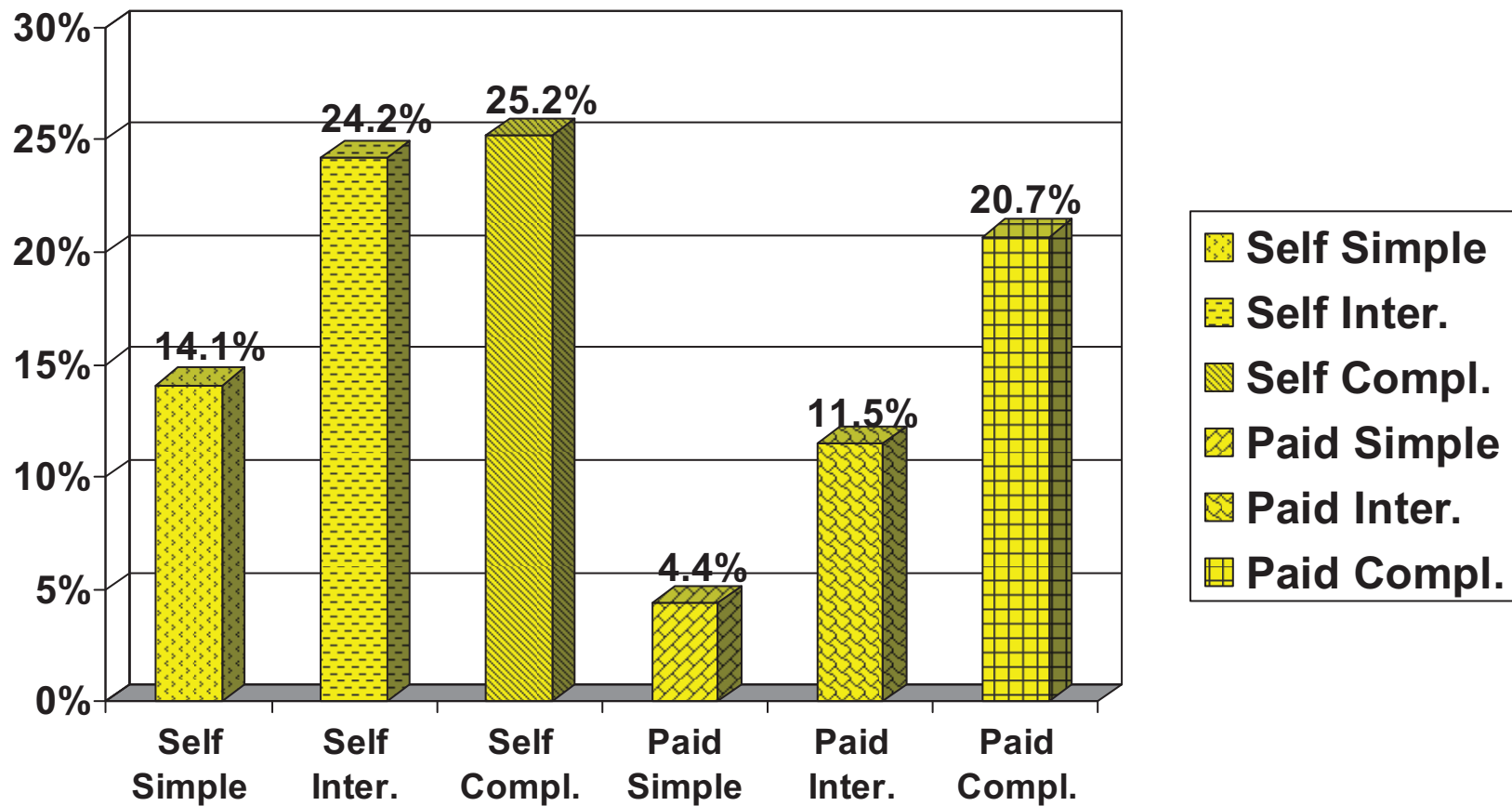
Self Simple Self Int. Self Comp. Pd. Simple Pd. Int. Pd. Comp.

Source: ETA IMF Marketing Data Base

37.2% of all unpaid (at filing) balance due returns are from the
Paid-Preparer Complex segment



Market Segment Percentage of Direct Debit*: TY 2006



Source: ETA IMF Marketing Data Base

- Self-prepared returns had a higher percentage of direct debit usage compared to paid-prepared returns.

* The percentage is based on total volume of direct debit used by self-preparer and paid-preparer in each market segment.



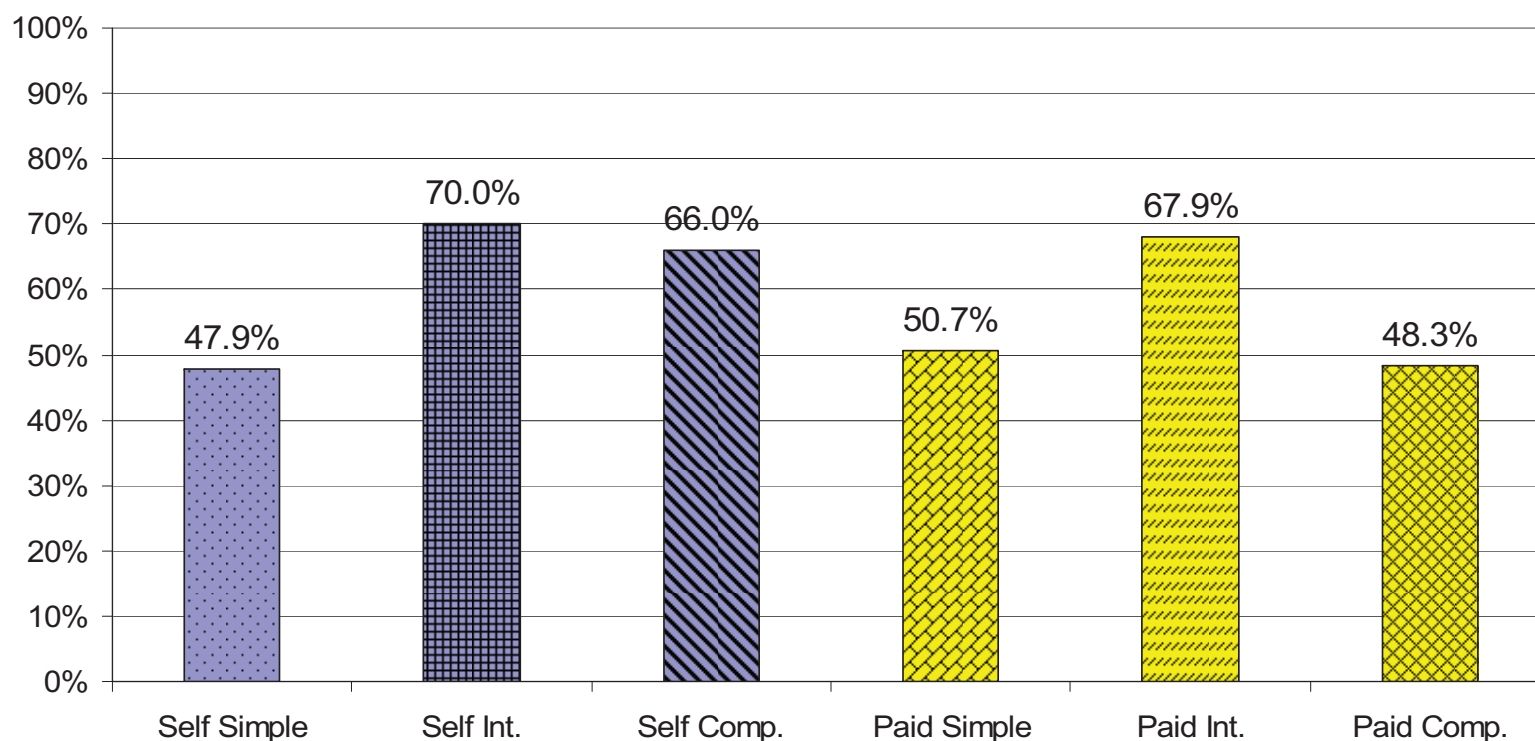
Direct Deposit Trends*

- Self-prepared returns had higher reject rates (0.6%) than paid-preparers (0.2%).
- Simple, self-prepared returns had the highest rejection rate (0.8%).
- Intermediate, self-prepared returns had higher acceptance rates (70.0%) than any other type of return.
- The acceptance rates for simple and intermediate returns for self-prepared and paid-preparers are almost the same; but the acceptance rate for self-prepared complex returns (66.0%) is much higher than paid-preparer complex returns (48.3%).

* The percent is based on taxpayers who did or did not request direct deposit.



Direct Deposit Acceptance Rates* for Different Return Types: TY 2006



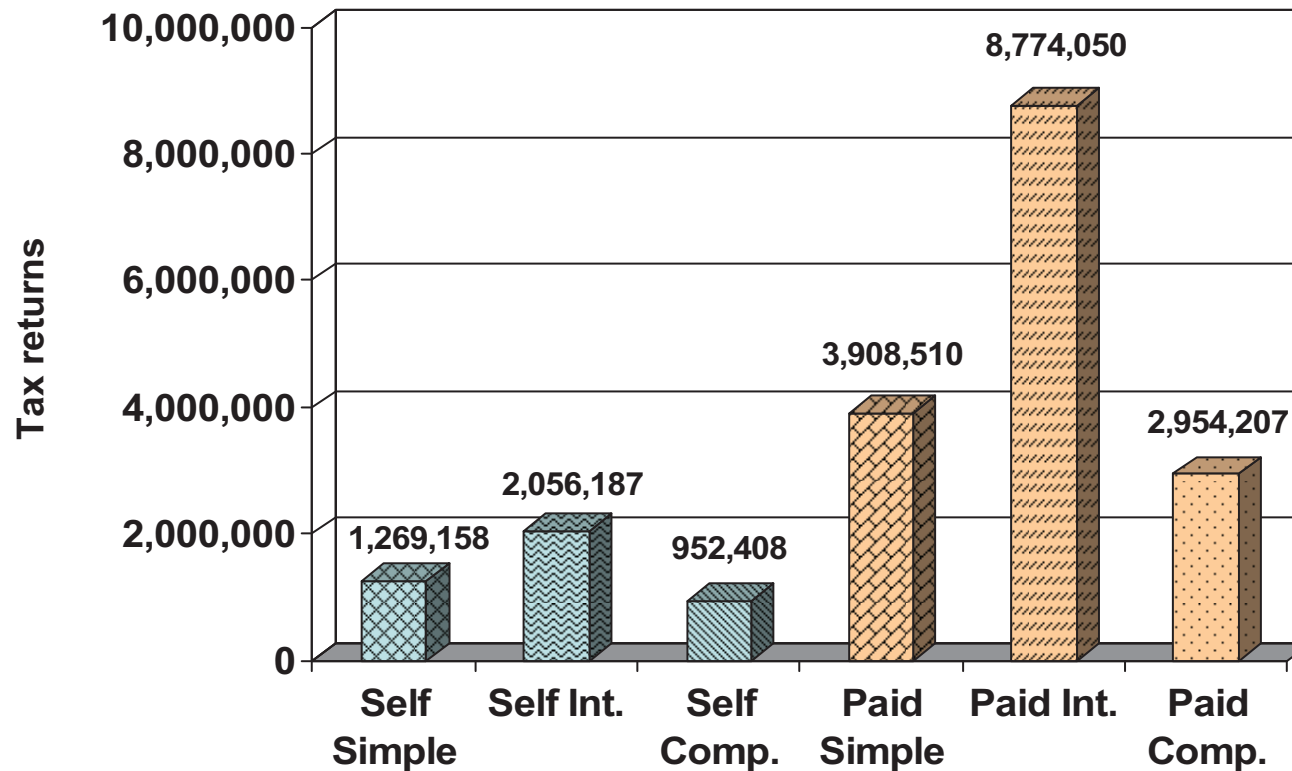
Source: ETA IMF Marketing Data Base

* The percent is based on taxpayers who did or did not request for direct deposit.

- The acceptance rates for simple and intermediate returns for self-prepared and paid-preparers are almost the same; but the acceptance rate for self-prepared complex returns (66.0%) is much higher than paid-preparer complex returns (48.3%).



Volume of RAL or RAC Requested by Market Segment: TY 2006

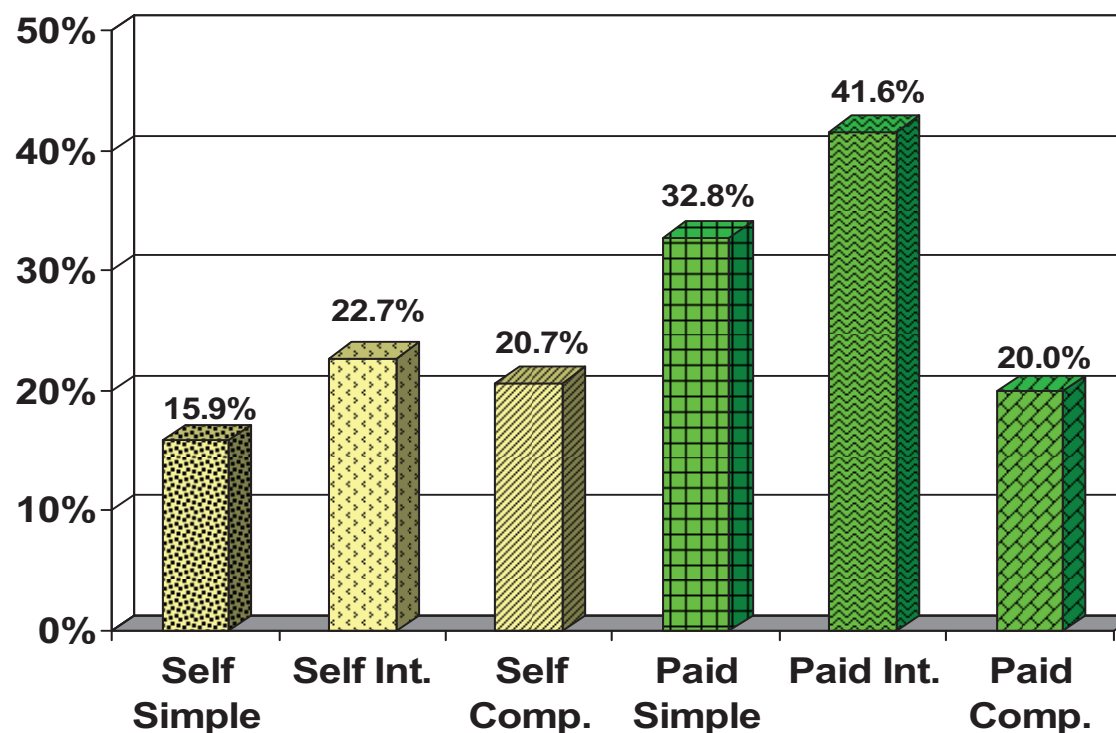


Source: ETA IMF Marketing Data Base

- In total, there are nearly 19.9 million RAL or RAC requests.
- 15.6 million (78.5%) of these requests were from paid-prepared returns. ⁴⁸



Percent of RAL or RAC Requested by Market Segment: TY 2006



Source: ETA IMF Marketing Data Base

- Paid-simple and paid-intermediate are the market segments within which the highest percentage requested RAL or RAC.



Question # 3

Profiles of taxpayers

by filing method & preparation

method in each market segment:

TY 2006



V-code Filing Percentages by AGI in the Six Market Segments: TY 2006

- In the simple return segments, the lower and middle AGI returns are more likely to be V-coded.
- As return complexity increases and AGI increases above \$100,000, the percentage of V-coded returns increases for both self-prepared and paid-preparer segments.

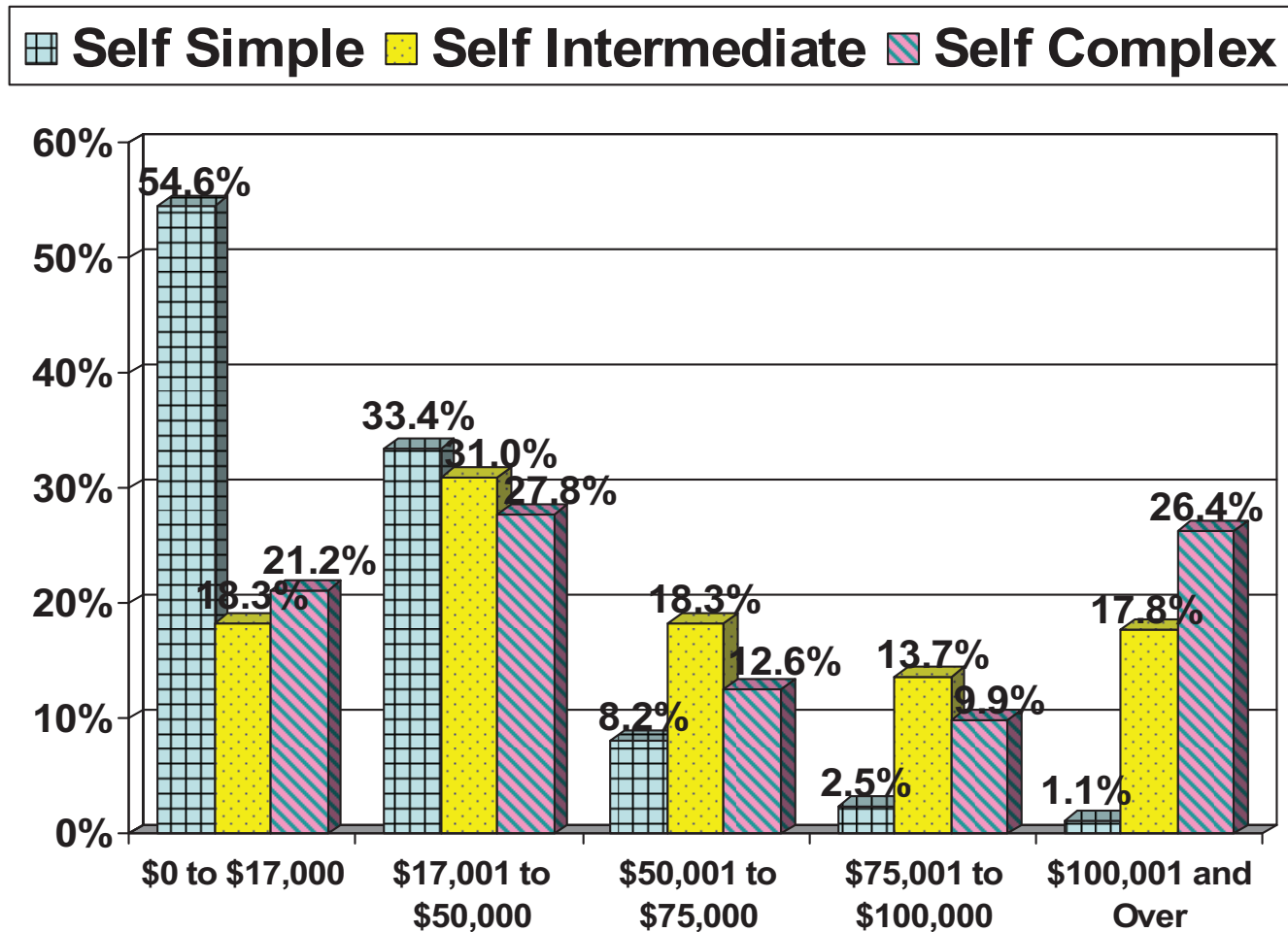


Table 12: V-code by AGI Ranges: TY 2006

Market Segment	Negative AGI	AGI \$0 to \$17,000	AGI \$17,001 to \$50,000	AGI \$50,001 to \$75,000	AGI \$75,001 to \$100,000	AGI \$100,001 and Over	Number of V-code Returns
Self Simple	0.2%	54.6%	33.4%	8.2%	2.5%	1.1%	4,462,504
Self Intermed.	0.9%	18.3%	31.0%	18.3%	13.7%	17.8%	4,499,193
Self Complex	2.0%	21.2%	27.8%	12.6%	9.9%	26.4%	4,111,342
Paid Simple	0.1%	48.7%	39.1%	8.7%	2.4%	1.0%	4,789,005
Paid Intermed.	1.4%	20.7%	34.9%	19.0%	11.9%	12.1%	5,987,934
Paid Complex	3.4%	18.4%	25.8%	13.5%	9.9%	29.0%	12,709,581



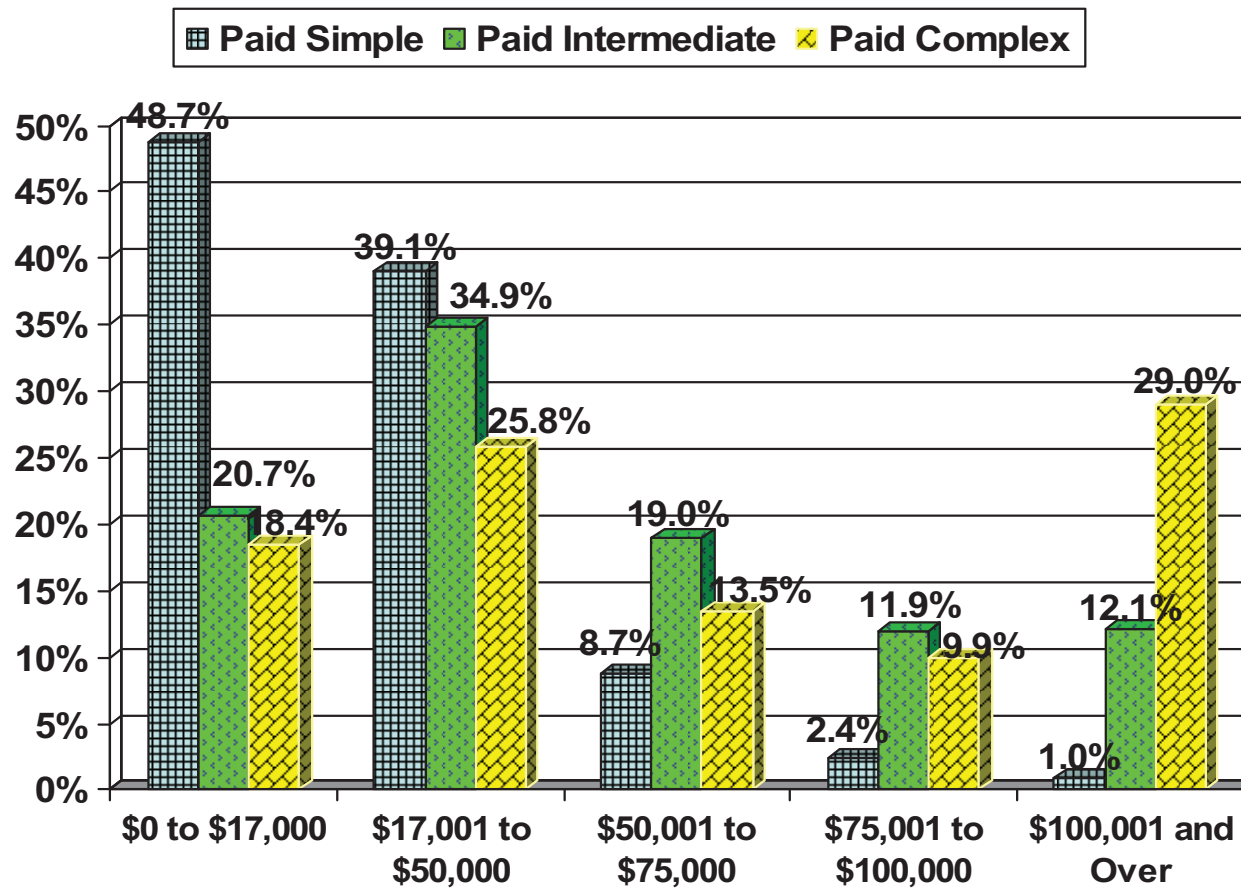
Distribution of Self-Prepared V-coded Returns by AGI: TY 2006



Source: ETA IMF Marketing Data Base



Distribution of Paid-Preparer, V-coded Returns by AGI: TY 2006



Source: ETA IMF Marketing Data Base



V-code Filing Percentage by Age in the Six Market Segments: TY 2006

- Total Self-Prepared V-code = 13,073,039
- Total Paid-Prepared V-code = 23,486,520
- A larger percentage of self-simple V-coded returns are in the 0 to 24 age category.
- A larger percentage of paid-preparer V-coded returns are in the 65 and over age category.



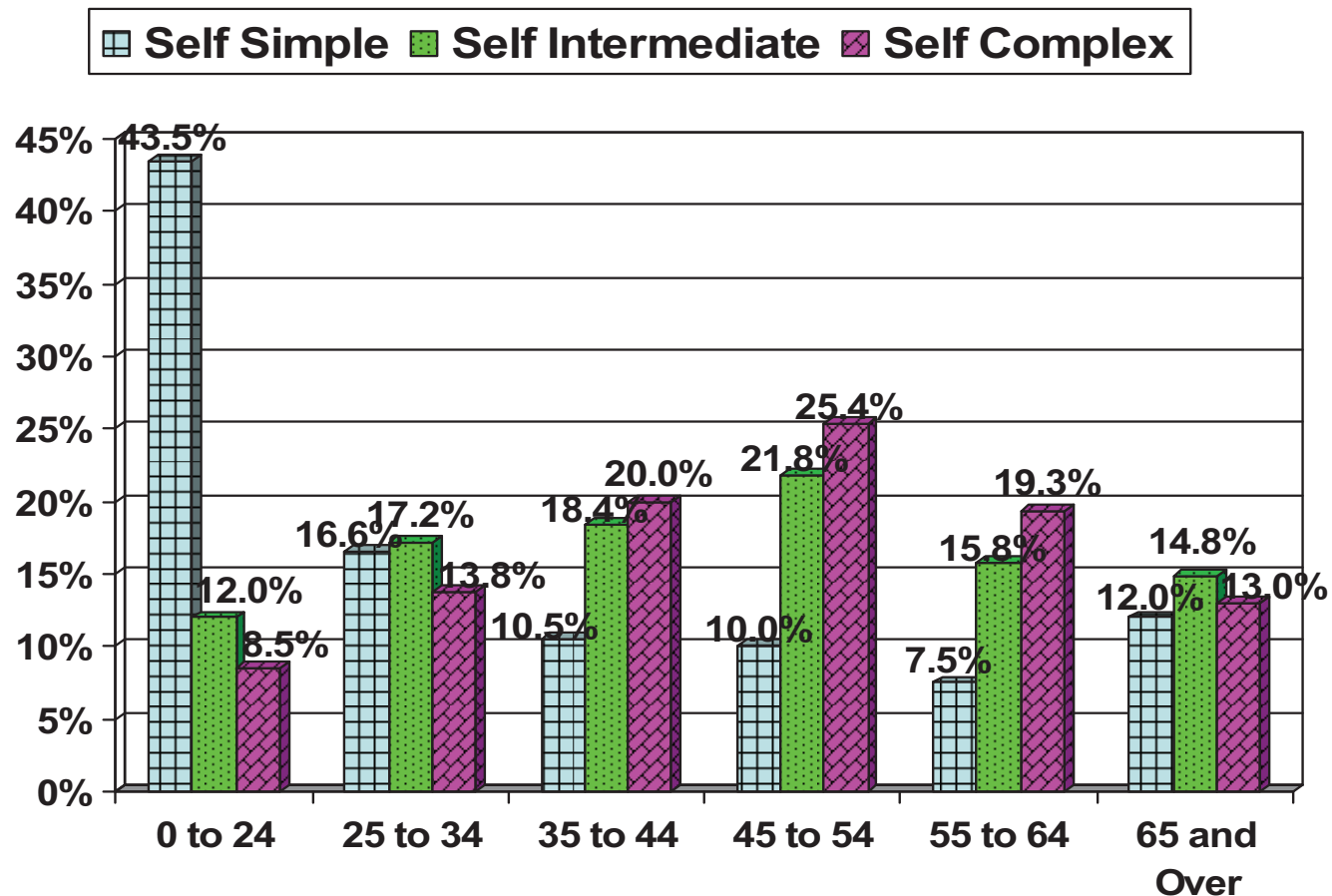
Table 13: V-code by Age Ranges: TY 2006

Market Segment	0 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65 and Over	Number of V-code Returns
Self Simple	43.5%	16.6%	10.5%	10.0%	7.5%	12.0%	4,462,504
Self Intermed.	12.0%	17.2%	18.4%	21.8%	15.8%	14.8%	4,499,193
Self Complex	8.5%	13.8%	20.0%	25.4%	19.3%	13.0%	4,111,342
Paid Simple	32.2%	15.5%	11.4%	10.8%	9.8%	20.3%	4,789,005
Paid Intermed.	10.1%	12.5%	15.1%	18.4%	16.6%	27.2%	5,987,934
Paid Complex	5.9%	9.7%	17.5%	23.2%	20.5%	23.1%	12,709,581

Source: ETA IMF Marketing Data Base



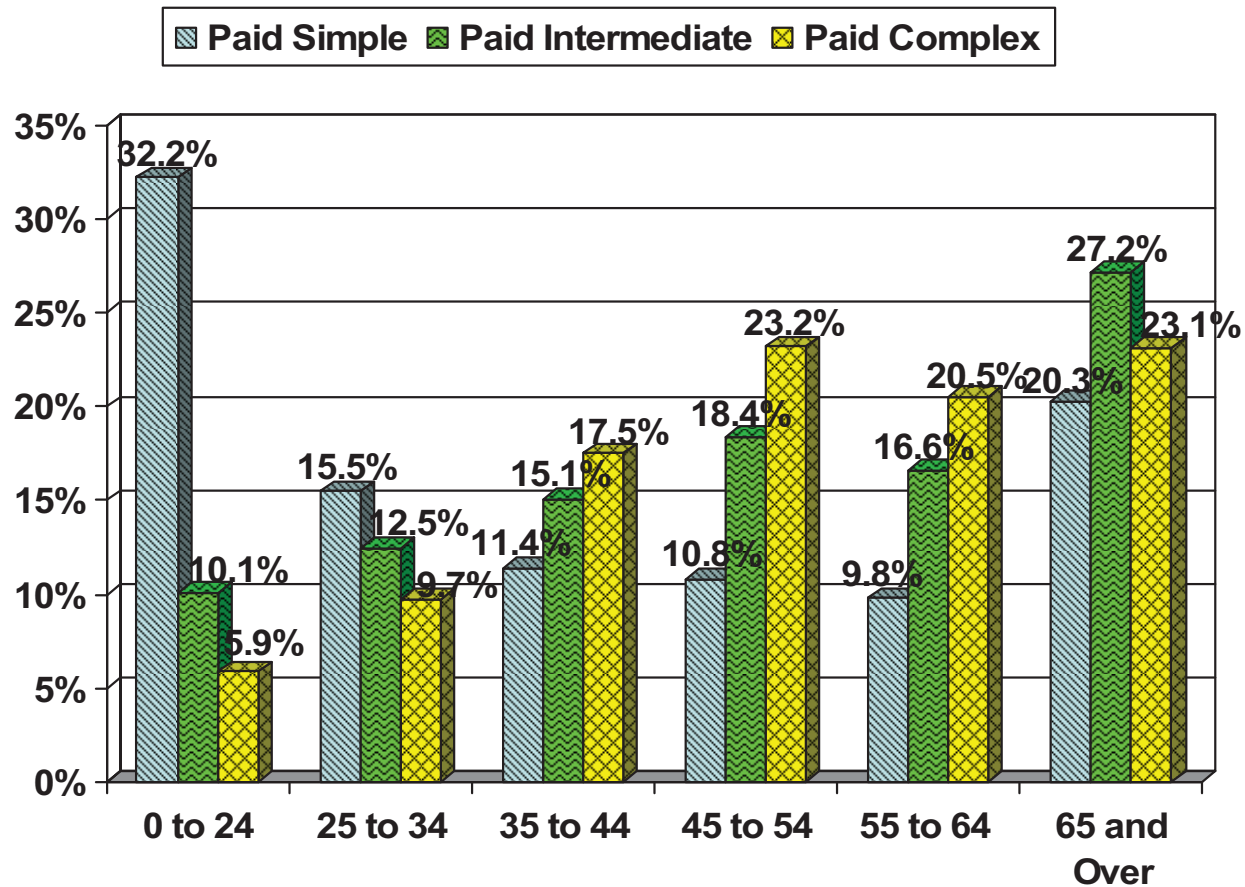
Distribution of Self-Prepared V-coded Returns by Age: TY 2006



Source: ETA IMF Marketing Data Base



Distribution of Paid-Preparer, V-coded Returns by Age: TY 2006



Source: ETA IMF Marketing Data Base



AGI and Age profiles of taxpayers by ELF, Online*, and Hand-Prepared Paper in the

ELF Six Market Segments: TY 2006

- 60.0% of ELF filers are between 25 and 54 years old; but 43.0% of all filers fall into this age group.
- 41.0% of all ELF filers are in the paid-intermediate market segment. Only 22.0% of all filers are in the paid-intermediate market segment.
- 39.0% of the ELF filers are in the AGI category \$17,001 to \$50,000; this compares to 36.0% all filers in the same AGI category.

* Online filing does not include Free Filing.



Online*

- 44.0% of all Online filers are in the self-intermediate market segment.
- 65.0% to 77.0% of Online filers in self and paid intermediate /complex segments are in the 25 to 54 age group.
- 22.4% of Online filers in self-complex segment are in the AGI category of \$100,001 and over.

Hand-prepared paper

- 39.0% of all paper returns are filed by taxpayers who are either under the age of 25 years or over 65 years.
- 89.0% of all paper returns are self-prepared. 55% of all paper returns are filed in the self-prepared, simple market segment.
- 41.0% of all paper returns are filed by taxpayers who are in the AGI category of \$0 to \$17,000.

* Online filing does not include Free Filing.



Breakdown of Direct Deposit by Filing Method: TY 2006

ELF

- 71.8% of all ELF returns with refund received direct deposit. The remaining 28.2% did not request direct deposit. (See Table 15.)

Online*

- 89.6% of all Online returns with refund received direct deposit. Only 10.4% did not request direct deposit.
- Online filers with refund are more likely to choose direct deposit than ELF filers with refund.

* Online filing does not include Free Filing.



Breakdown of Direct Deposit by Filing Method: TY 2006

V-code

- 66.7% of all self-prepared V-coded returns with refund did not request direct deposit. Only 32.5% of self-prepared V-coded returns accepted direct deposit. (See Table 14.)

Hand-Prepared paper

- 68.9% of all paper returns with refund did not request direct deposit. Only 29.7% of paper returns accepted direct deposit.
- 67.6% of all self-prepared paper returns with refund did not request direct deposit. Only 30.9% of self-prepared paper returns accepted direct deposit.



Table 14: Breakdown of Direct Deposit on Self-Prepared Returns (Refund Only) by Filing Method: TY 2006

<i>Description</i>	<i>Self-prepared Returns only</i>					
	<i>Total</i>	<i>ELF</i>	<i>Online*</i>	<i>Free File</i>	<i>V-code</i>	<i>Hand-Prepared Paper</i>
Direct Deposit not requested	17,362,565	267,069 (28.4%)	1,769,192 (10.4%)	862,510 (23.6%)	6,147,960 (66.7%)	8,315,834 (67.6%)
Direct Deposit accepted	25,538,061	673,749 (71.6%)	15,280,080 (89.6%)	2,789,313 (76.4%)	2,994,551 (32.5%)	3,800,368 (30.9%)
Direct deposit rejected	255,474	0	0	0	77,914 (0.8%)	177,560 (1.4%)
Total	43,156,100	940,818 (100%)	17,049,272 (100%)	3,651,823 (100%)	9,220,425 (100%)	12,293,762 (100%)

Source: ETA IMF Marketing Database

Note: * Online filing does not include Free Filing.



**Table 15: Breakdown of Direct Deposit on Returns (Refund Only)
by Filing Method: TY 2006**

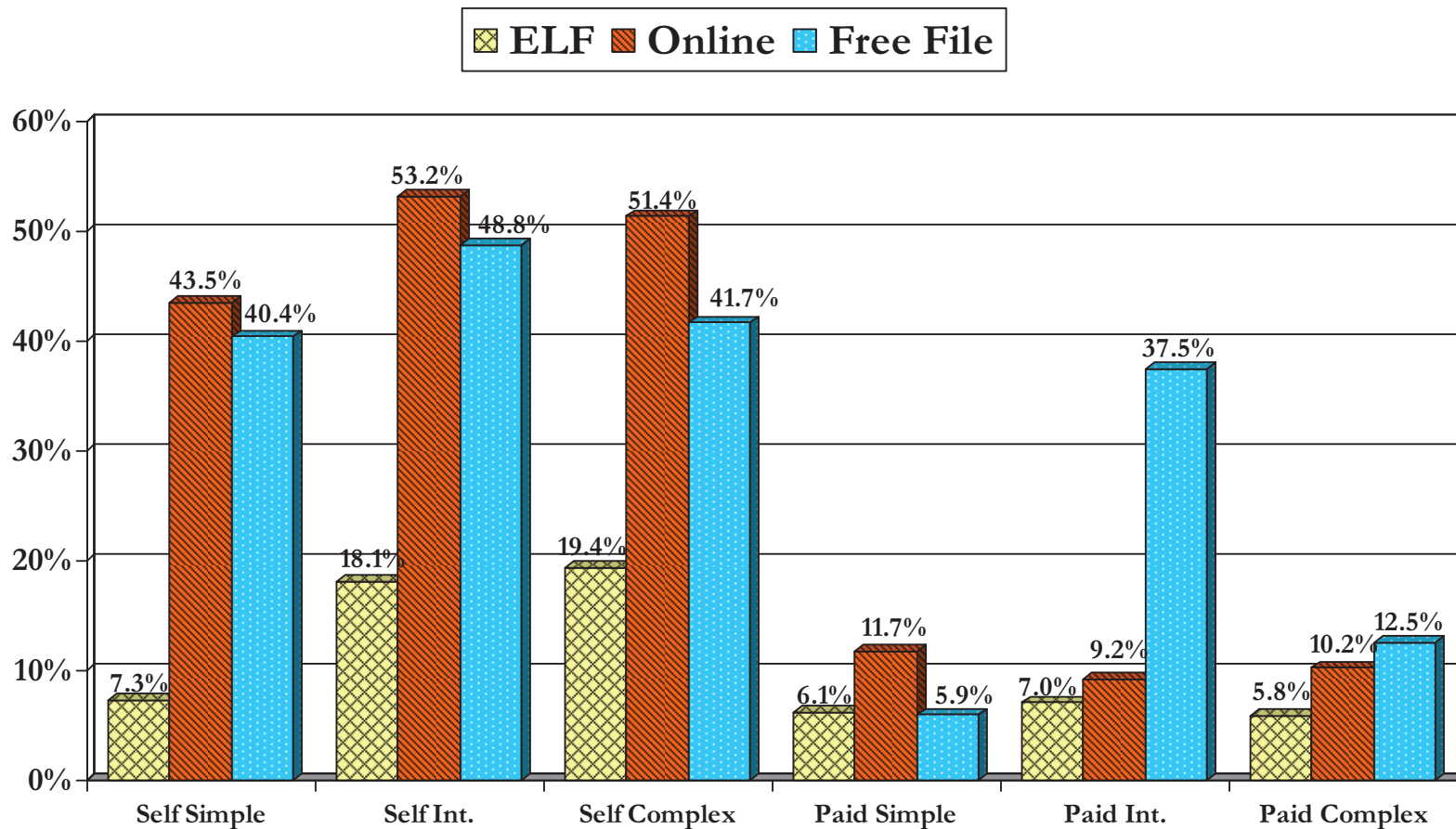
<i>Description</i>	<i>Self and Paid prepared Returns</i>					
	<i>Total</i>	<i>ELF</i>	<i>Online*</i>	<i>Free File</i>	<i>V-code</i>	<i>Hand-Prepared Paper</i>
Direct Deposit not requested	45,134,629	13,751,982 (28.2%)	1,777,643 (10.4%)	862,792 (23.6%)	19,281,617 (78.7%)	9,460,595 (68.9%)
Direct Deposit accepted	62,145,088	34,941,988 (71.8%)	15,299,462 (89.6%)	2,790,208 (76.4%)	5,034,733 (20.5%)	4,078,697 (29.7%)
Direct deposit rejected	375,652	3	0	1	186,917 (0.8%)	188,731 (1.4%)
Total	107,655,369	48,693,973 (100%)	17,077,105 (100%)	3,653,001 (100%)	24,503,267 (100%)	13,728,023 (100%)

Source: ETA IMF Marketing Database

Note: * Online filing does not include Free Filing.



Percentage* of Electronic Filers Using Direct Debit by Filing Method and Market Segment: TY 2006



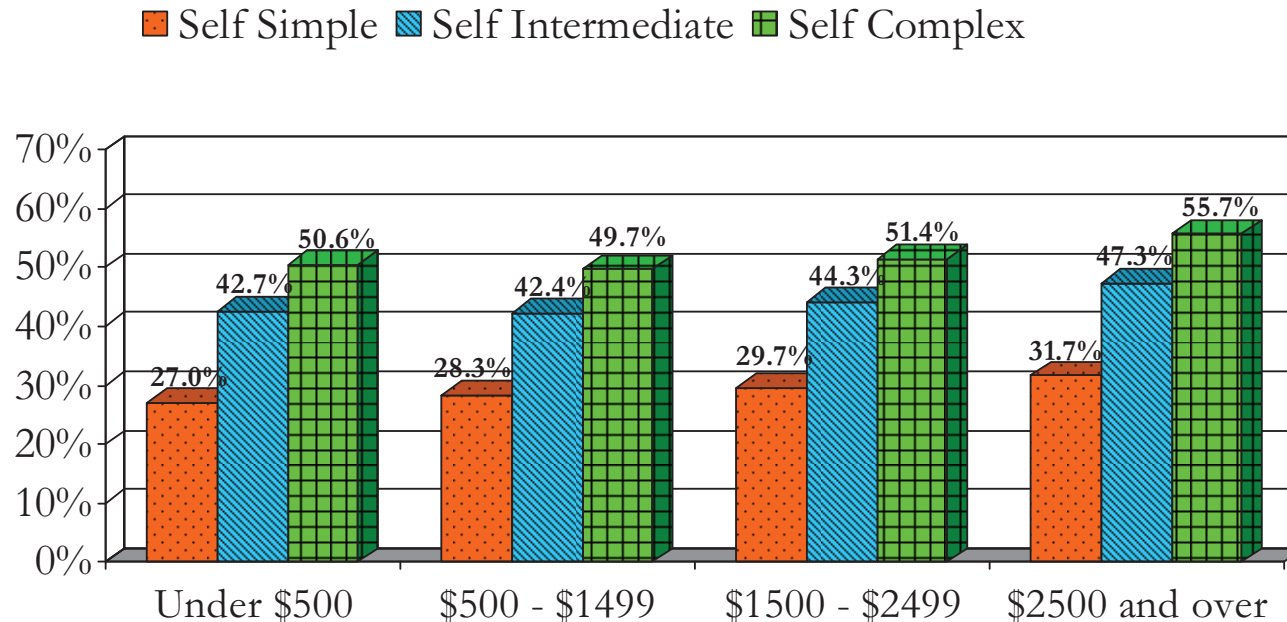
Source: ETA IMF Marketing Data Base

- The bar graph reveals that a higher percentage of electronic filers who self-prepared their returns use direct debit compared to taxpayers who used a paid-preparer.

* The direct debit usage percentage in each market segment and each filing method is based on total volume of returns with balance dues in the respective market segment and respective filing method.



Distribution of Self-Prepared, V-coded Returns by Balance Due* TY 2006



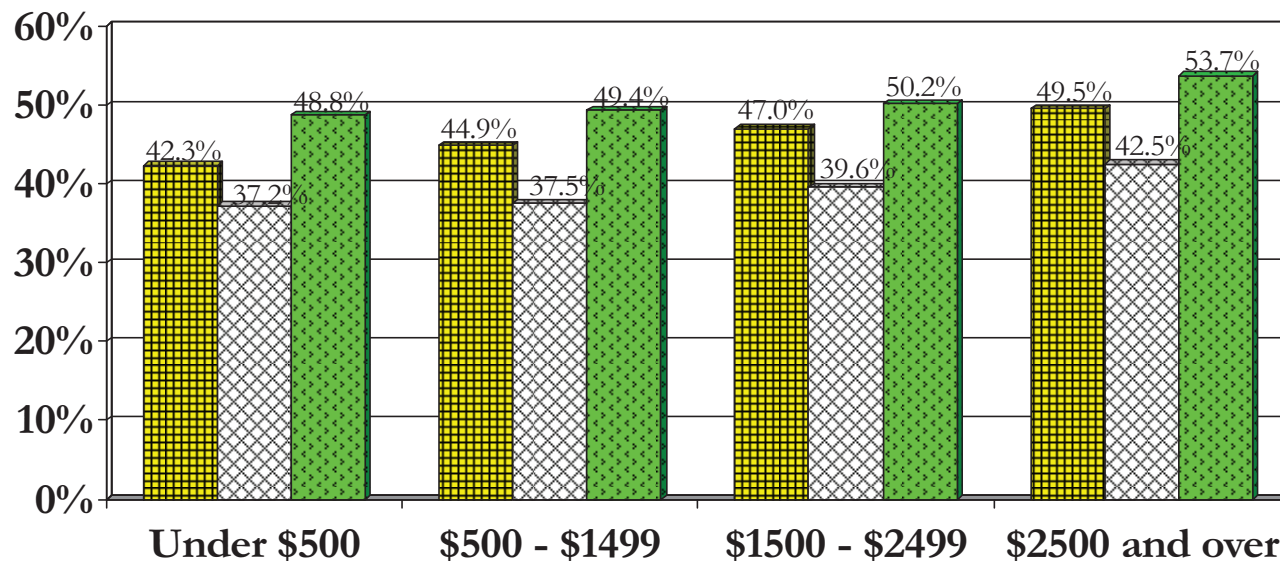
Source: ETA IMF Marketing Data Base

- Distribution of Self-Prepared, V-coded returns is similar for all balance due categories.
- * Each return category percentage under each bal. due category is based on total volume of the respective return category all filing methods under the respective bal. due category.



Distribution of Paid-Prepared, V-coded Returns by Balance Due* TY 2006

■ Paid Simple ▨ Paid Intermediate ■ Paid Complex



Source: ETA IMF Marketing Data Base

- Distribution of Paid-Prepared, V-coded returns is similar for all balance due categories.

* Each return category percentage under each bal. due category is based on total volume of the respective return category all filing methods under the respective bal. due category.

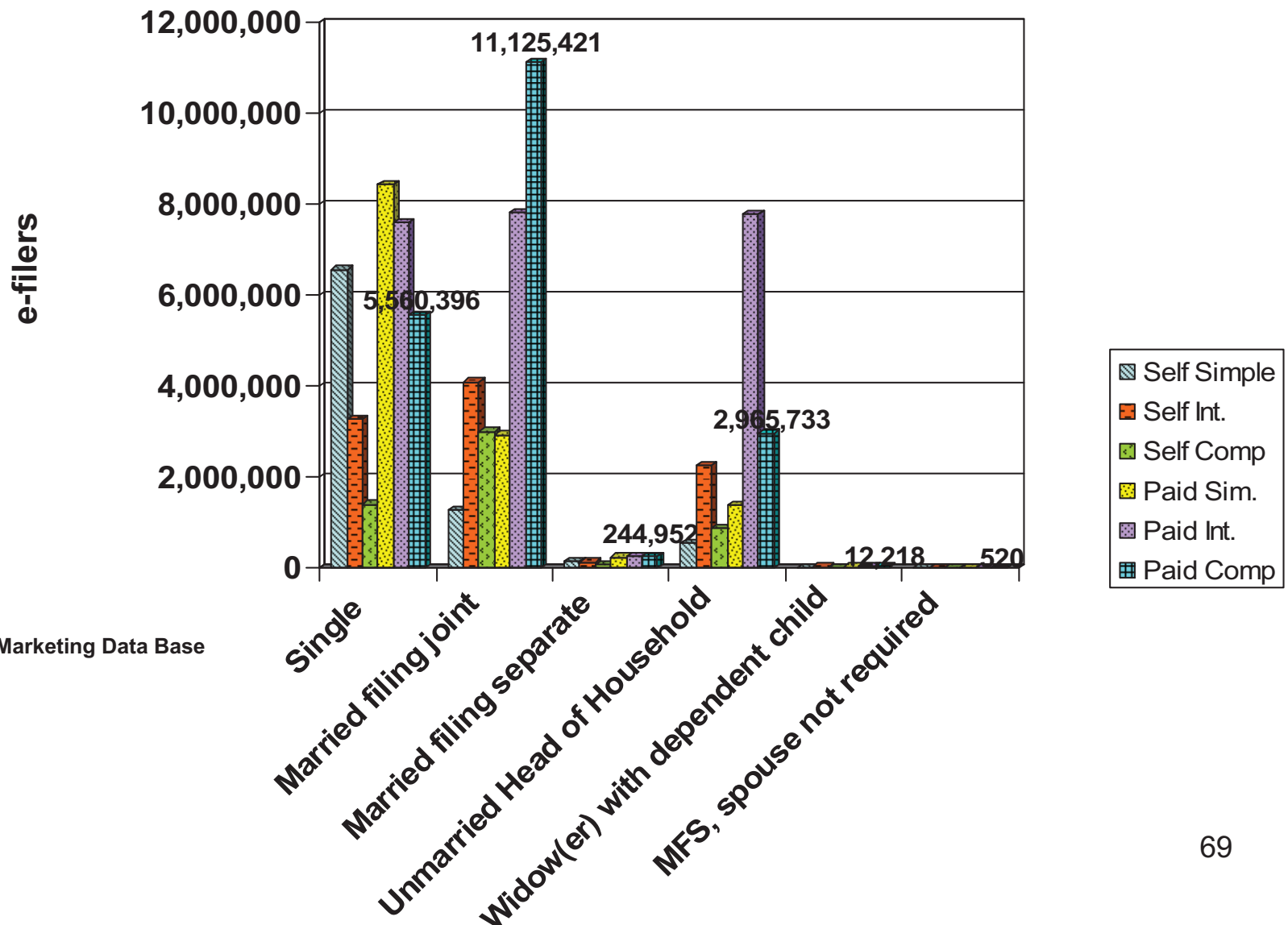


Analysis of e-filing, V-code Filing, and Hand-Prepared Paper Filing in the Six Market Segments by Filing Status: TY 2006

- **The ‘Married filing joint return’ category has the highest number of e-filing (11,125,421) in the paid-prepared complex returns market segment.**
- **Also, the ‘Married filing joint return’ category has the highest number of V-code filing (7,562,638) in the paid-prepared complex returns market segment.**
- **The ‘Single taxpayer’ category has the highest number of hand-prepared paper filing in the self-prepared simple returns market segment.**



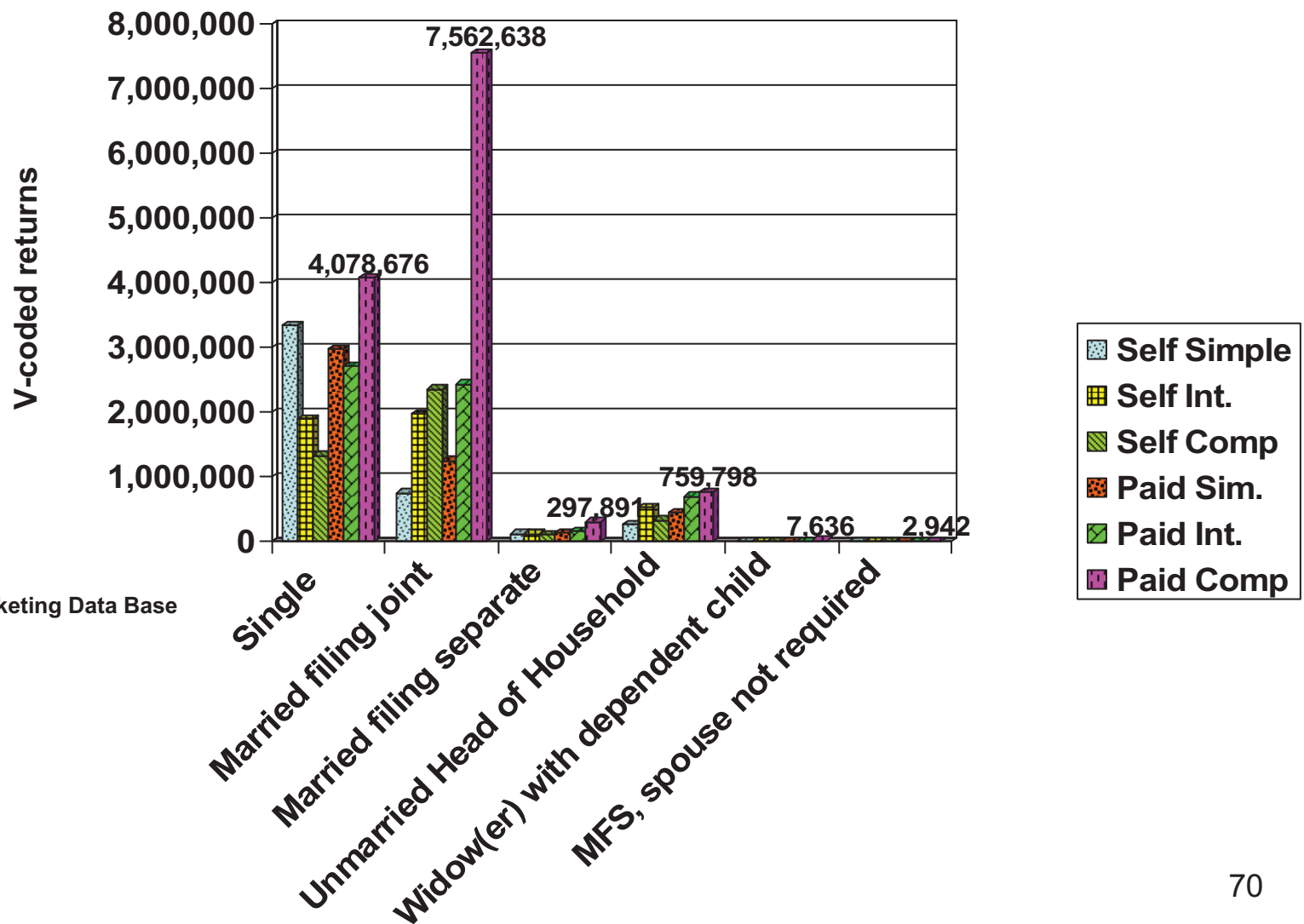
Distribution of e-filing by Filing Status in the Six Market Segments: TY 2006



Source: ETA IMF Marketing Data Base



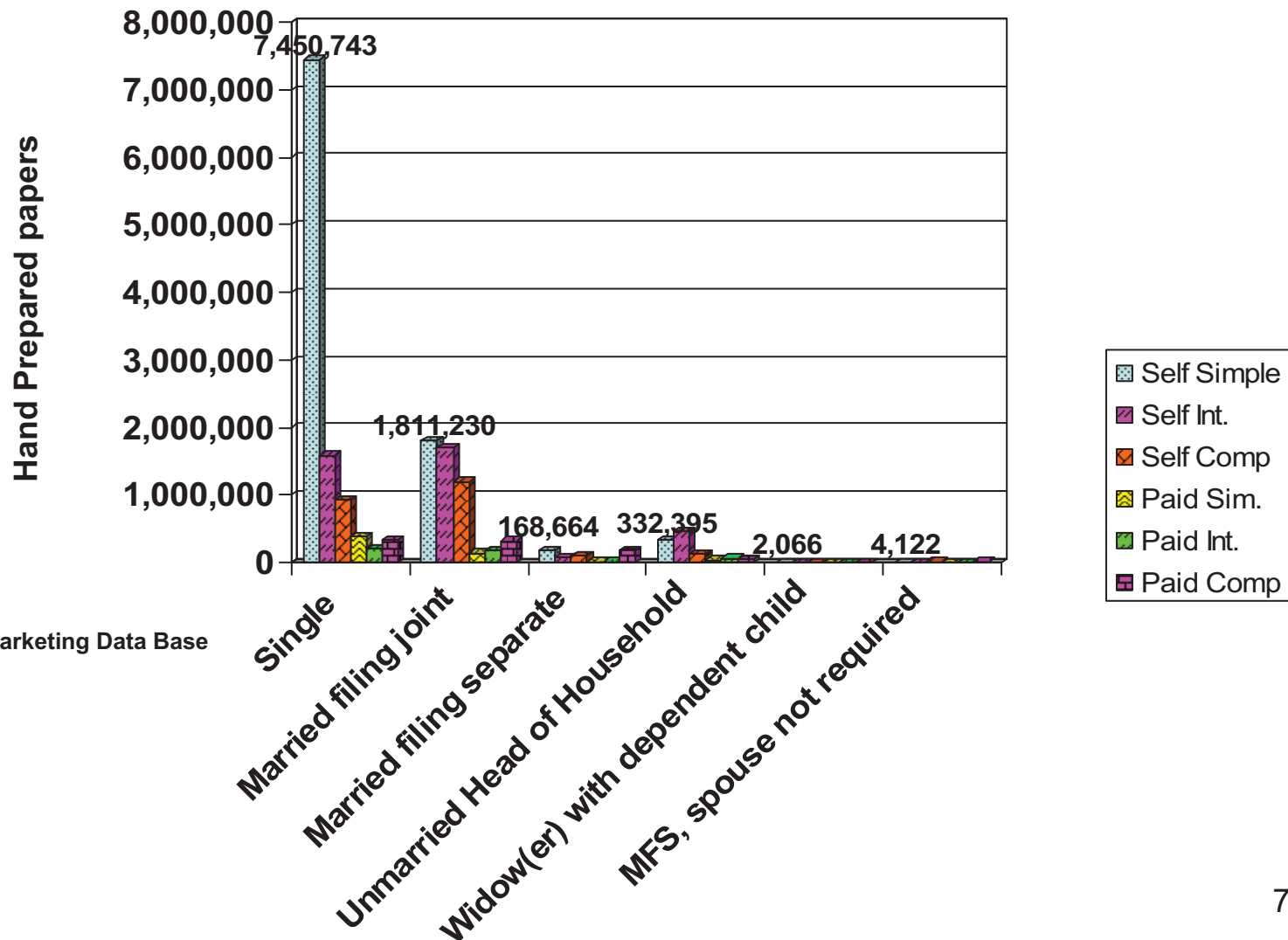
Distribution of V-coded Returns by Filing Status in the Six Market Segments: TY 2006



Source: ETA IMF Marketing Data Base



Distribution of Hand-Prepared Paper by Filing Status in the Six Market Segments: TY 2006

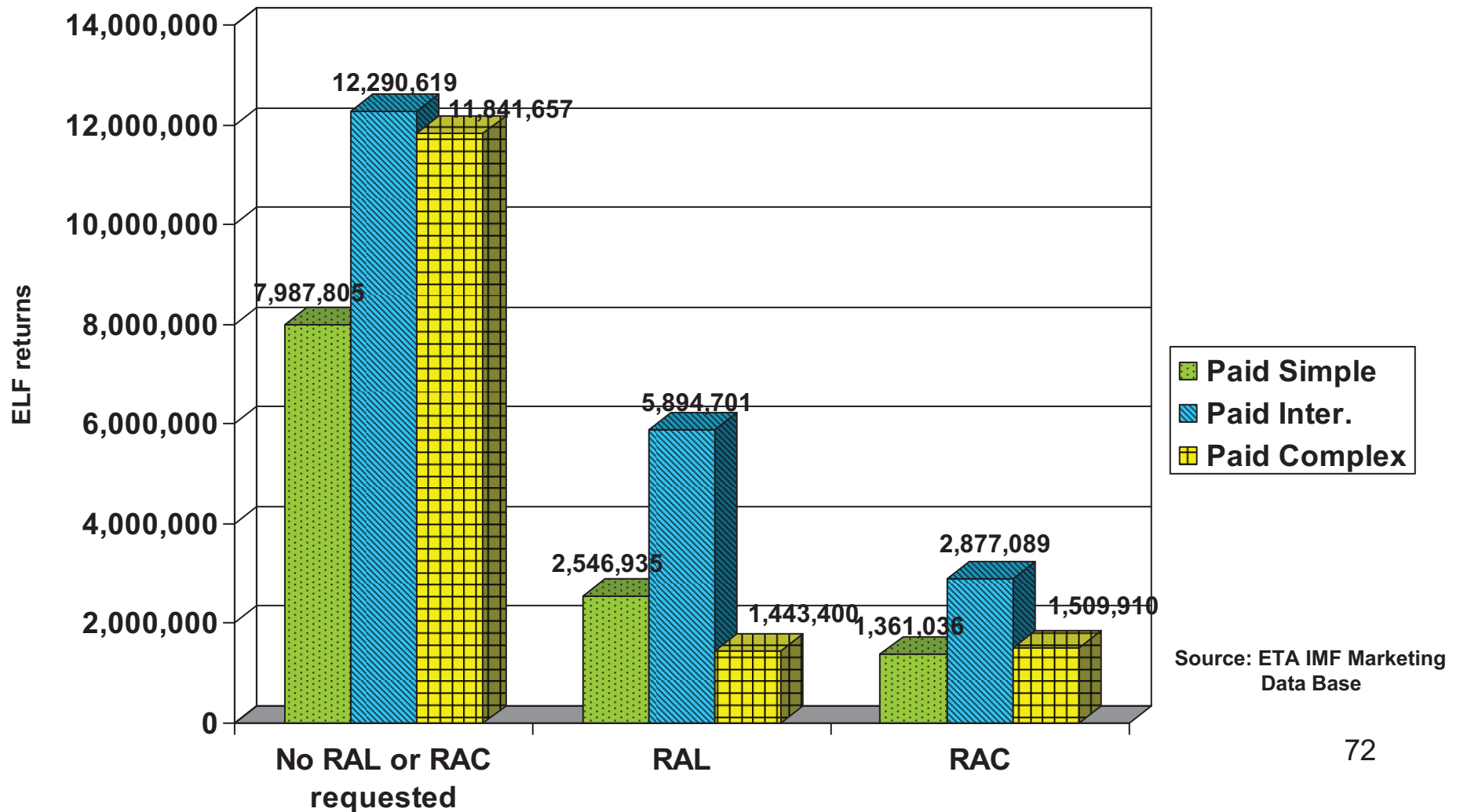


Source: ETA IMF Marketing Data Base



Distribution of ELF Returns by Market Segment on RAL/RAC Indicator: TY 2006

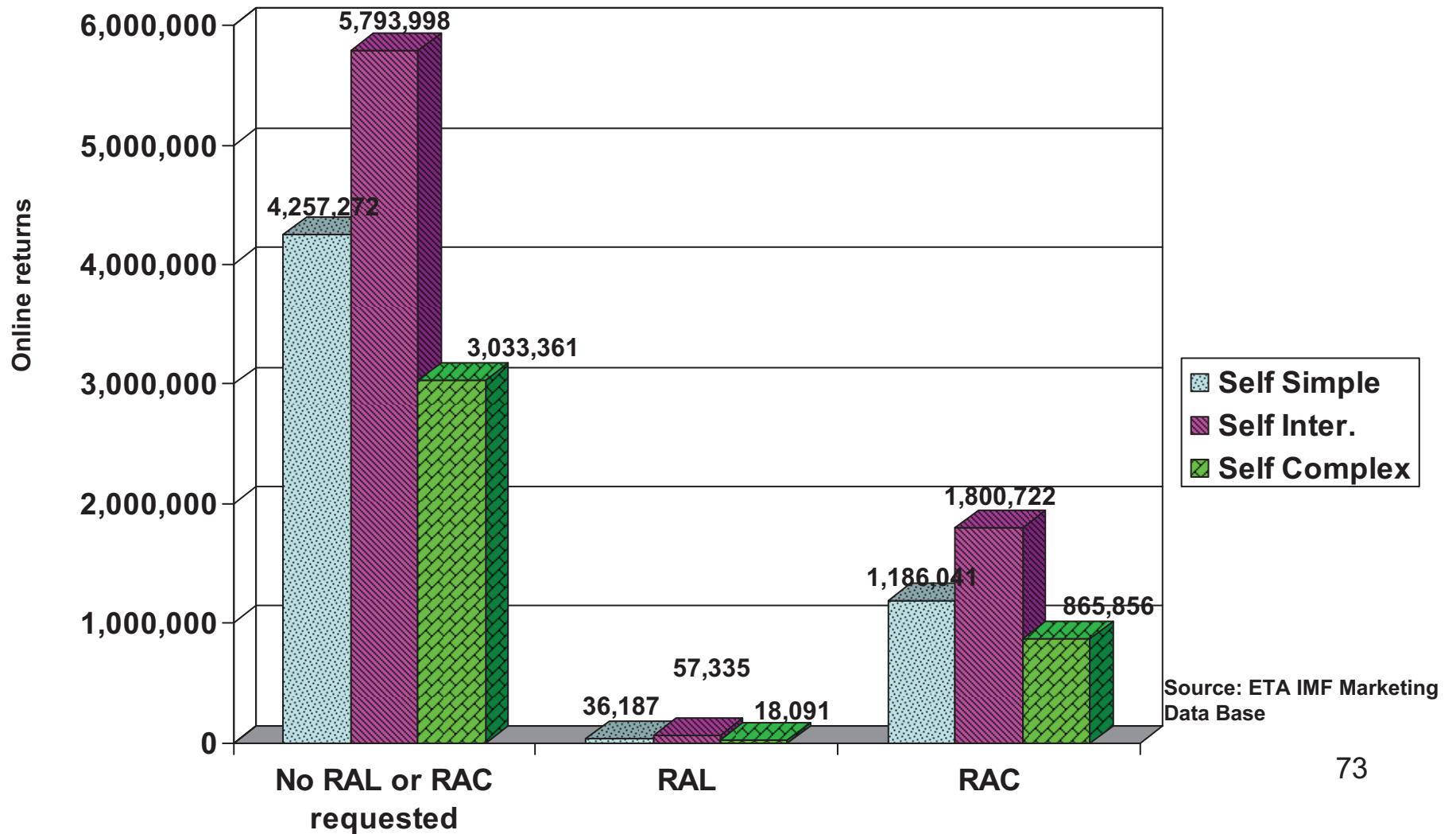
67.3% (32.1 million) of total paid-prepared ELF returns did not request RAL or RAC. 20.7% (9.9 million) paid-prepared ELF returns requested RAL while 12.0% (5.7 million) paid-prepared ELF returns requested RAC.





Distribution of Online Filing by Market Segment on RAL/RAC Indicator: TY 2006

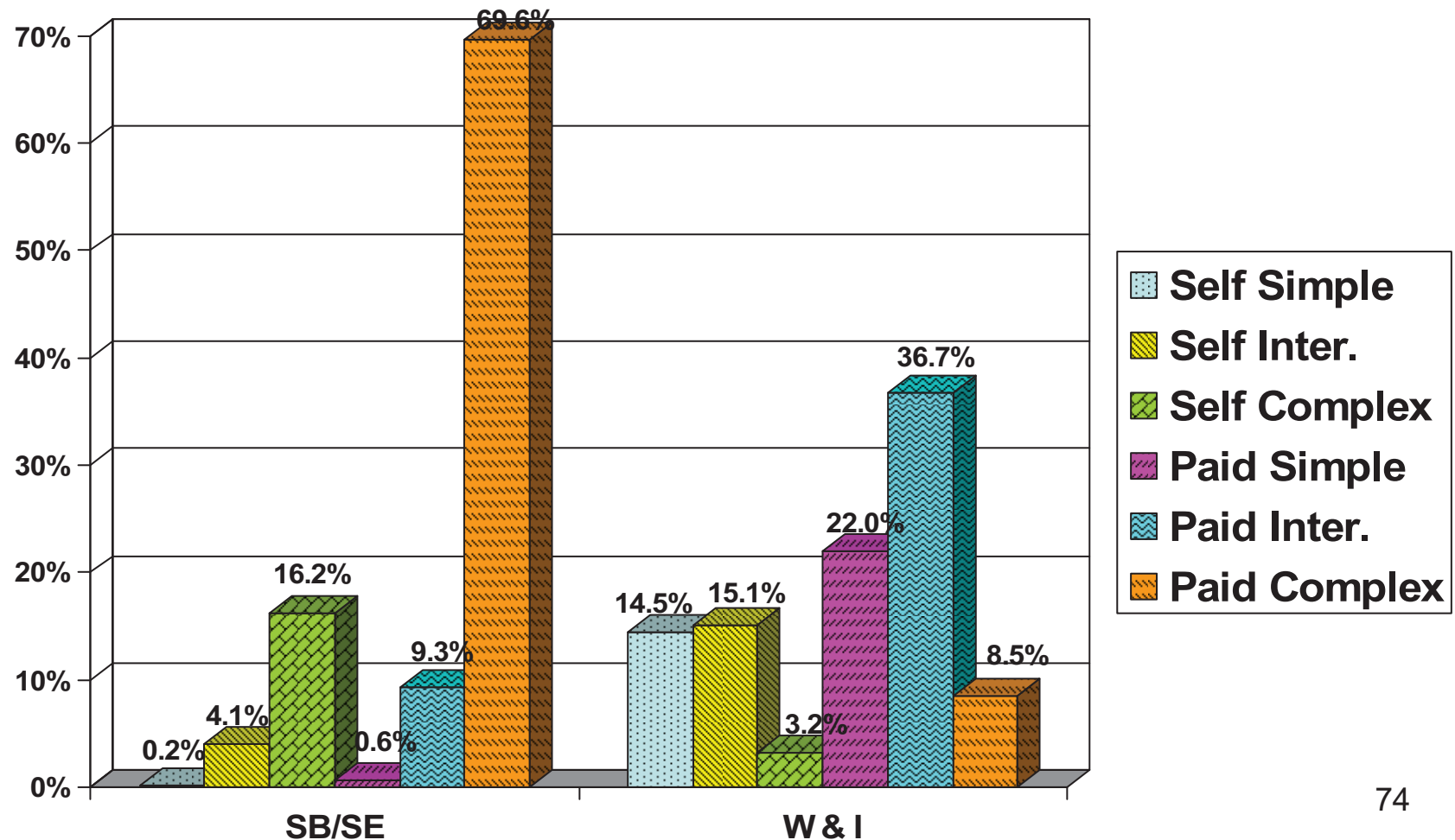
0.7% (0.1 million) of total self-prepared Online returns requested RAL. 22.6% (3.9 million) self-prepared Online returns requested RAC while 76.7% (13.1million) self-prepared Online returns did not request RAL or RAC.





Comparison of Self-Prepared and Paid-Prepared e-filing by Operating Division: TY 2006

SB/SE taxpayers have the highest percentage (69.6%) of e-filing on paid-prepared complex returns. The paid-prepared intermediate returns market segment has the highest percentage e-filing (36.7%) compared to other marketing segments in W & I.

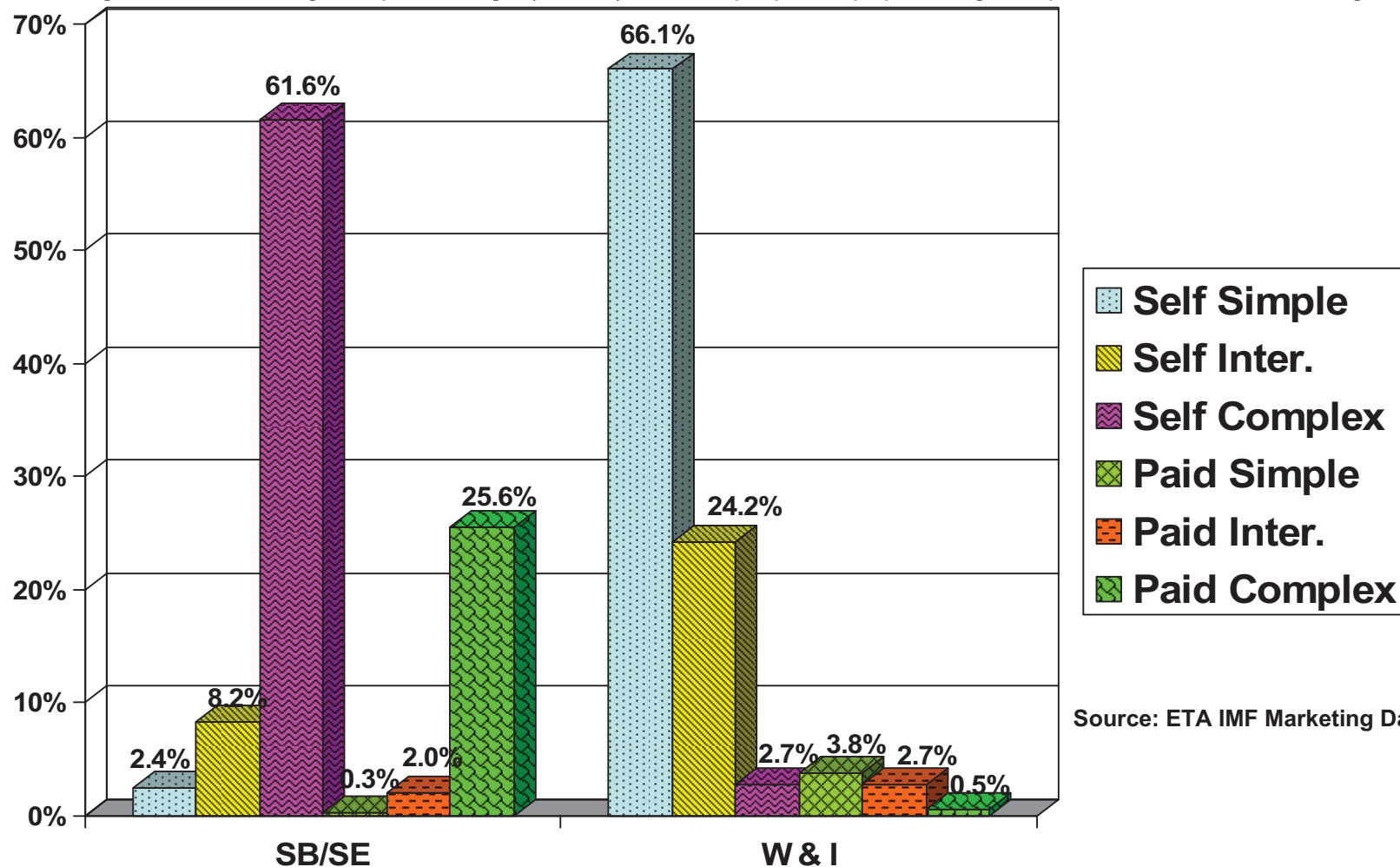


Source: ETA IMF Marketing Data Base



Comparison of Self-Prepared and Paid-Prepared Hand Prepared Paper Filing by Operating Division: TY 2006

W & I taxpayers have the highest percentage (66.0%) of hand-prepared paper filing in the self-prepared simple return market segment while SB/SE taxpayers have 2.4% in that market segment; for SB/SE taxpayers, the self-prepared complex returns market segment has the highest percentage (61.6%) of hand-prepared paper filing compared to other market segments.

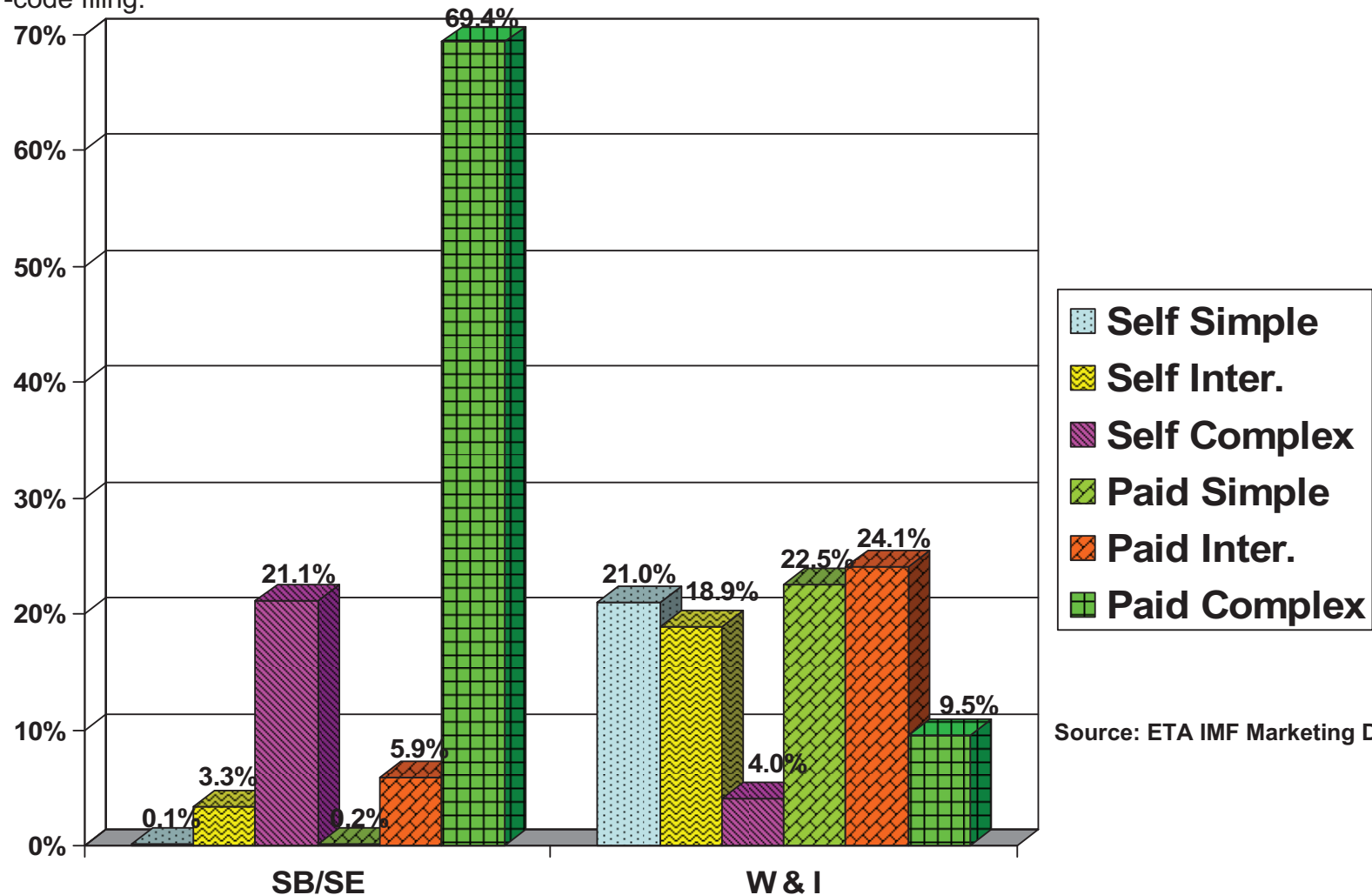


Source: ETA IMF Marketing Data Base



Comparison of Self-Prepared and Paid-Prepared V-code Filing by Operating Division: TY 2006

SB/SE taxpayers have the highest percentage (69.4%) V-code filing on paid-prepared complex returns market segment; W & I taxpayers in both self-prepared and paid-prepared simple returns market segments have close percentages on V-code filing.



Source: ETA IMF Marketing Data Base



States Mandated Electronic Filing

A number of states have adopted requirements mandating that certain tax practitioner file tax returns they prepare in electronic form, using tax preparation software.

Question 4 - What is the Impact of Mandated States?

- **Analysis of Mandated States and Non-mandated States**
 - **Track growth of paid-preparer ELF filing in Mandated States and Non-mandated States**
 - **Analyze paid-preparer V-code usage in Mandated States and Non-mandated States**



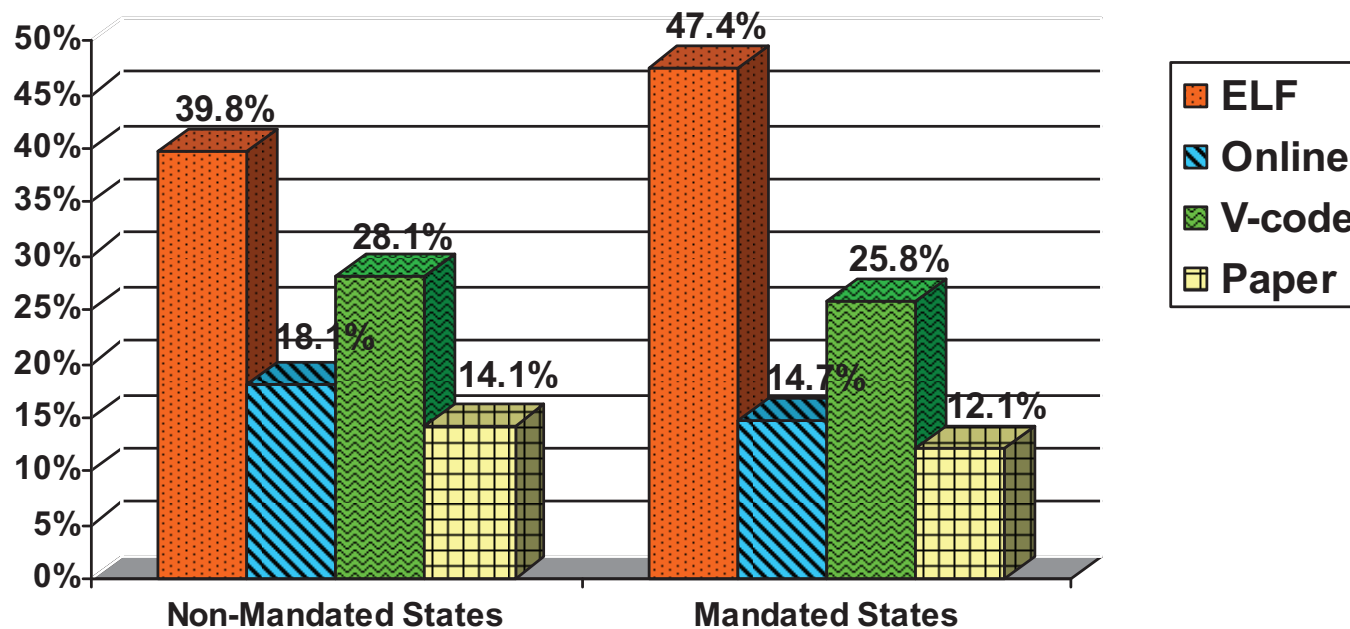
Table 16: State Income Tax Electronic Filing Mandate for Paid-Preparers, by State and Tax year

State	Mandated e-file TY	State	Mandated e-file TY
Minnesota	2000	New Jersey	2004
Michigan	2002	Virginia	2004
Oklahoma	2002	Connecticut	2005
Wisconsin	2002	New York	2005
California	2003	Utah	2005
Alabama	2004	West Virginia	2006
Massachusetts	2004		

Note: WIPRA used criteria V-indicator =1 (V-code filing) and TRDBTY = 0 (hand-prepared Paper filing) to do the query and match with the ETA validation report as closely as possible on V-code filing counts for each year. The counts varied slightly; but the differences were insignificant (up to 122).



Method of Filing Percentages: Mandated States vs. Non-mandated States*, TY 2006



Source: ETA IMF Marketing Data Base

* **Note**, the non-mandated states include other filing locations (foreign military, Puerto Rico, etc.) that are not mandated.



Mandated vs. Non-Mandated States Paid-Preparer ELF and V-code Filing

- The paid-preparer ELF filing rate of the combined mandated states in each tax year (TY 2000 – TY 2006) is higher compared to the combined non-mandated states, as well as the national total. (See Table 17.)
- Table 18 shows that the percentage point increase of paid-preparer ELF filing is highest for some mandated states in the tax year where electronic filing became mandatory, and decreases in the subsequent tax years.
- The paid-preparer V-code filing rate of the combined mandated states in each tax year is lower compared to the combined non-mandated states, as well as the national total. (See Table 19.)
- The percentage point decrease of paid-preparer V-code filing is highest for some mandated states in the tax year where electronic filing became mandatory and decreases in the subsequent tax years. (See Table 20.)



Table17: Mandated vs. Non-Mandated States Paid-Preparer ELF Filing Rates*

Mandated States	Tax Year						
	2000	2001	2002	2003	2004	2005	2006
MN - TY 2000	49.7%	59.2%	67.5%	80.3%	84.1%	86.0%	87.6%
MI - TY 2002	38.2%	44.2%	49.9%	74.9%	80.0%	82.6%	84.5%
OK - TY 2002	36.8%	42.7%	47.3%	54.9%	61.8%	66.0%	69.7%
WI - TY 2002	41.7%	50.4%	67.2%	74.0%	78.0%	80.8%	83.3%
CA - TY 2003	27.2%	31.5%	36.0%	62.0%	68.1%	71.5%	74.3%
AL - TY 2004	46.2%	50.9%	55.9%	61.1%	69.9%	74.2%	77.1%
MA - TY 2004	27.7%	31.8%	36.8%	41.8%	58.8%	68.7%	74.4%
NJ - TY 2004	26.5%	29.5%	32.6%	36.1%	52.3%	60.2%	66.8%
VA - TY 2004	39.8%	41.7%	47.9%	52.6%	57.4%	60.7%	64.3%
CT - TY 2005	30.0%	36.0%	39.3%	43.1%	53.5%	70.4%	75.9%
NY - TY 2005	27.0%	30.4%	33.4%	37.7%	42.7%	58.9%	67.5%
UT - TY 2005	35.5%	43.3%	49.4%	56.8%	62.5%	68.2%	71.9%
WV - TY 2006	41.7%	46.7%	50.1%	54.7%	58.6%	61.8%	69.9%
Total Mand. states	49.7%	59.2%	57.2%	66.4%	67.6%	69.3%	73.7%
Non-Mand. States	37.3%	41.8%	45.8%	51.9%	57.3%	62.6%	65.7%
National level	37.5%	42.1%	46.7%	54.9%	60.4%	65.2%	68.9%

Source: ETA IMF Marketing Data Base

* The percentage is based on paid-preparer all filing types only.



Table18: Mandated States Paid-Preparer ELF Filing Percentage Point increases Between Two Consecutive Tax Years*

Mandated States	Percentage Point increase Between Two Consecutive Tax Years					
	2001 - 2000	2002 - 2001	2003 - 2002	2004 - 2003	2005 - 2004	2006 - 2005
MN - TY 2000	9.5%	8.3%	12.8%	3.8%	1.9%	1.6%
MI - TY 2002	5.9%	5.7%	25.0%	5.1%	2.6%	1.9%
OK - TY 2002	5.9%	4.6%	7.7%	6.9%	4.1%	3.8%
WI - TY 2002	8.7%	16.8%	6.8%	4.0%	2.7%	2.5%
CA - TY 2003	4.3%	4.5%	26.0%	6.1%	3.4%	2.8%
AL - TY 2004	4.7%	5.0%	5.2%	8.8%	4.3%	2.9%
MA - TY 2004	4.1%	5.0%	5.0%	17.0%	9.9%	5.8%
NJ - TY 2004	3.1%	3.1%	3.6%	16.2%	7.9%	6.6%
VA - TY 2004	1.9%	6.2%	4.7%	4.8%	3.3%	3.6%
CT - TY 2005	6.0%	3.3%	3.8%	10.4%	16.9%	5.5%
NY - TY 2005	3.4%	3.0%	4.3%	5.0%	16.2%	8.6%
UT - TY 2005	7.8%	6.1%	7.4%	5.6%	5.8%	3.7%
WV - TY 2006	4.9%	3.5%	4.6%	3.9%	3.2%	8.0%

Source: ETA IMF Marketing Data Base

* The percentage is based on paid-preparer all filing types only.



Table 19: Mandated States vs. Non-Mandated States Paid-Preparer V-code filing rates*

	Tax Year						
Mandated States	2000	2001	2002	2003	2004	2005	2006
MN - TY 2000	45.3%	35.9%	28.4%	16.5%	13.9%	12.3%	10.5%
MI - TY 2002	54.2%	47.9%	43.1%	21.0%	17.6%	15.4%	13.7%
OK - TY 2002	57.1%	50.3%	46.5%	39.6%	35.4%	31.7%	28.3%
WI - TY 2002	51.7%	42.8%	27.7%	21.7%	19.1%	16.9%	14.6%
CA - TY 2003	62.0%	56.9%	57.2%	32.7%	30.3%	27.0%	24.4%
AL - TY 2004	47.7%	42.8%	38.8%	34.7%	28.0%	24.0%	21.4%
MA - TY 2004	62.5%	57.0%	53.1%	51.7%	38.0%	28.6%	23.3%
NJ - TY 2004	61.7%	56.9%	55.1%	57.3%	44.5%	37.0%	30.9%
VA - TY 2004	54.0%	48.7%	45.8%	42.1%	39.9%	37.2%	34.0%
CT - TY 2005	61.3%	55.0%	52.4%	50.8%	43.2%	27.1%	21.9%
NY - TY 2005	56.4%	52.2%	50.2%	56.3%	54.0%	38.3%	30.1%
UT - TY 2005	58.4%	50.2%	44.8%	38.1%	35.5%	30.2%	26.8%
WV - TY 2006	49.0%	44.7%	42.4%	38.1%	37.2%	34.6%	27.2%
Total Mand. States	45.3%	35.9%	36.9%	28.8%	30.2%	28.6%	24.5%
Non-Mandated States	54.3%	49.1%	46.3%	42.2%	39.4%	34.4%	31.5%
National level	54.1%	48.8%	45.5%	39.4%	36.6%	32.1%	28.7%

Source: ETA IMF Marketing Data Base

* The percentage is based on paid-preparer all filing types only.



**Table20: Mandated States Paid-Preparer V-code Filing Percentage
Point decreases Between Two Consecutive
Tax Years***

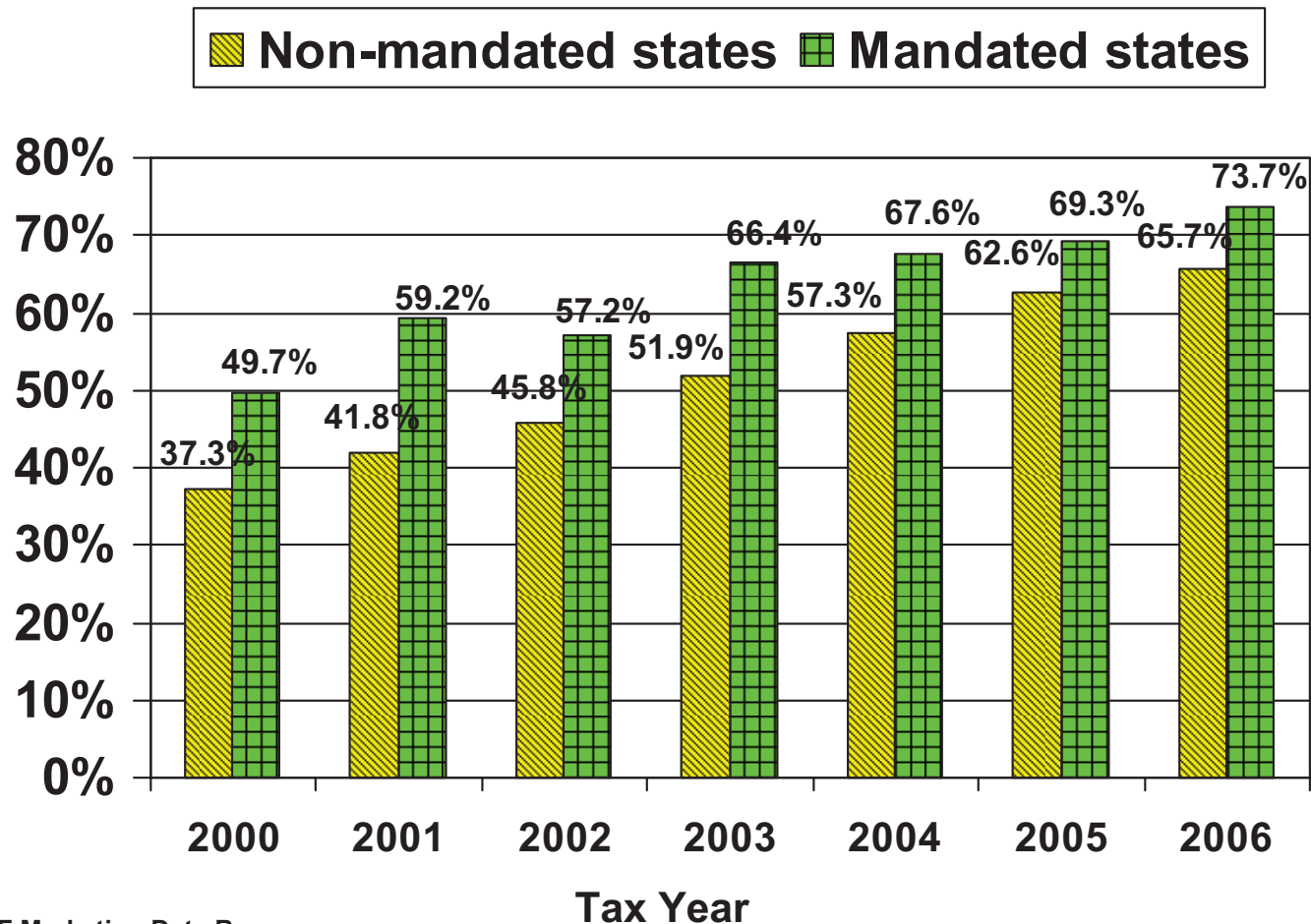
Mandated States	Percentage Point Decrease Between Two Consecutive Tax Years					
	2001 - 2000	2002 - 2001	2003 - 2002	2004 - 2003	2005 - 2004	2006 - 2005
MN - TY 2000	-9.4%	-7.5%	-11.9%	-2.6%	-1.6%	-1.7%
MI - TY 2002	-6.4%	-4.8%	-22.1%	-3.3%	-2.2%	-1.7%
OK - TY 2002	-6.8%	-3.7%	-7.0%	-4.2%	-3.7%	-3.4%
WI - TY 2002	-8.9%	-15.1%	-6.0%	-2.6%	-2.3%	-2.3%
CA - TY 2003	-5.1%	0.2%	-24.4%	-2.4%	-3.3%	-2.6%
AL - TY 2004	-4.9%	-4.1%	-4.0%	-6.8%	-4.0%	-2.5%
MA - TY 2004	-5.5%	-3.9%	-1.4%	-13.7%	-9.4%	-5.3%
NJ - TY 2004	-4.7%	-1.9%	2.2%	-12.8%	-7.5%	-6.1%
VA - TY 2004	-5.4%	-2.9%	-3.7%	-2.1%	-2.8%	-3.1%
CT - TY 2005	-6.4%	-2.5%	-1.6%	-7.6%	-16.1%	-5.2%
NY - TY 2005	-4.2%	-2.0%	6.2%	-2.3%	-15.7%	-8.2%
UT - TY 2005	-8.2%	-5.4%	-6.7%	-2.5%	-5.3%	-3.4%
WV - TY 2006	-4.3%	-2.3%	-4.3%	-0.9%	-2.6%	-7.4%

Source: ETA IMF Marketing Data Base

* The percentage is based on paid-preparer all filing types only.



Paid-Preparer ELF Filing Rates: Mandated States vs. Non-mandated States

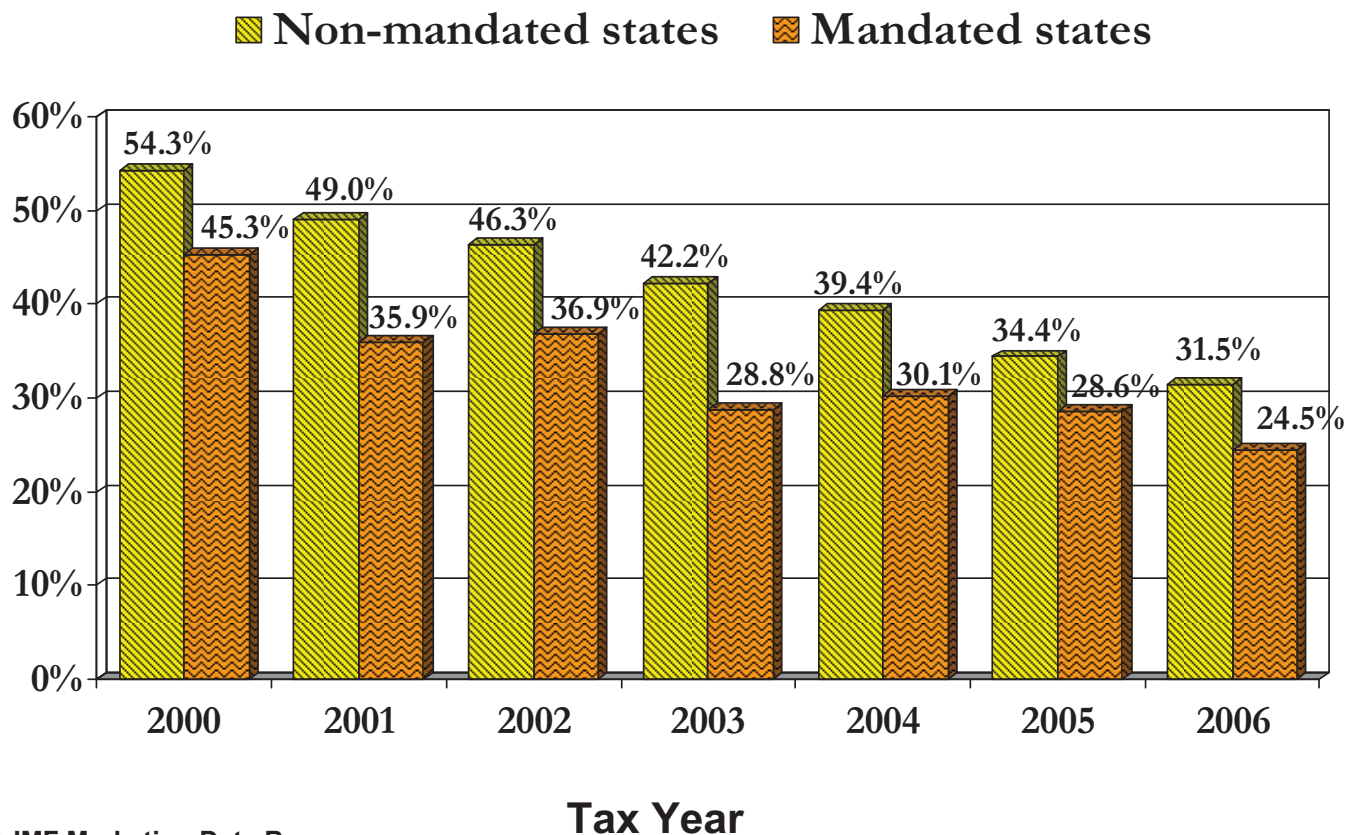


Source: ETA IMF Marketing Data Base

- In general, the mandated states have higher paid-preparer ELF filing rates each tax year.



Percentage of Paid-Preparer V-coded Returns: Mandated States vs. Non-mandated States



Source: ETA IMF Marketing Data Base

- In general, mandated states have lower paid-preparer V-code filing rates each tax year.



Direct Filing (I-Filing)

Direct File (also known as I-File) is when a state government offers an avenue for taxpayers to electronically file a tax return directly to the state using the state government's Web site. Direct File does not require the taxpayer to use outside software to electronically file their return.

Question 5 -What is the Impact of States with Direct File Service?

- Analysis of States with Direct File service
 - Track growth of self-prepared Online filing in states with direct filing service and states with no direct filing service
 - Analyze self-prepared V-code usage in states with direct filing service and states with no direct filing service



Table 21: States' Participation in Direct File*

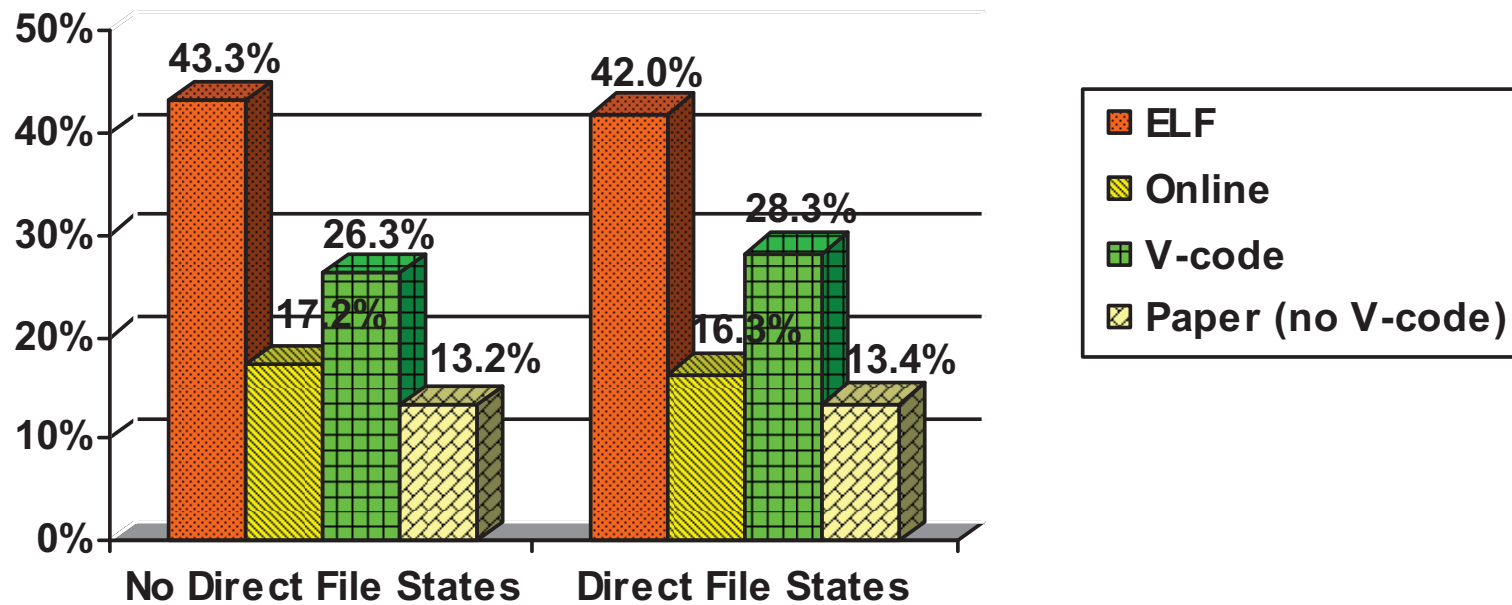
State	Direct File TY	State	Direct File TY	State	Direct File TY
Indiana	1996	Maryland	1999	Iowa	2000
Massachusetts	1996	Missouri	1999	Louisiana	2000
Delaware	1997	Montana	1999	Nebraska	2000
Illinois	1997	New Jersey	1999	Virginia	2000
New Mexico	1997	Pennsylvania	1999	Wisconsin	2000
Colorado	1998	Connecticut	2000	California	2001
Kansas	1998	DC	2000	Ohio	2002
South Carolina	1998	Hawaii	2000	Utah	2002
Maine	1999	Idaho	2000	West Virginia	2003

* The impact analysis focused on the period TY 2000 – TY 2006. Direct File service was shut down in five states ..
Massachusetts (TY 2002), Idaho (TY 2003), Iowa (TY 2004), Missouri (TY 2004), and West Virginia (TY 2004).

Note: WIPRA used criteria V-indicator =1 (V-code filing) and TRDBTY = 0 (hand-prepared Paper filing) to do the query and match with the ETA validation report as closely as possible on V-code filing counts for each year. The counts varied slightly; 90 but the differences were insignificant (up to 122).



Method of Filing Percentages: Direct File States vs. States with no Direct File Service*, TY 2006



Source: ETA IMF Marketing Data Base

* For TY 2006, only 22 states with Direct File service excluding 5 states where Direct File service was shut down are analyzed.



Direct File States vs. No Direct File States Self-Prepared Online and V-code Filing

- The combined states with no Direct File service has a higher self-prepared Online filing rate compared to the combined states with Direct File service in each tax year. It indicates that Direct File program may not accelerate self-prepared Online use. (See Table 22.)
- Table 23 shows that the percentage point increase on self-prepared Online filing is lowest in each Direct File state for TY 2005 – TY 2006, compared to the other previous tax years.
- Table 24 shows that the combined states with Direct File service has a higher self-prepared V-code filing rate compared to the combined states with no Direct File service in each tax year except TY 2000.
- The self-prepared V-code filing rate in each state with Direct File service is going up in each subsequent tax year and is highest in TY 2005. It indicates that the Direct File program does not have an impact on reducing self-prepared V-code use. (See Table 24.)
- Table 25 shows that the percentage point increase on self-prepared V-code filing in each state with Direct File service is highest for TY 2003 – TY 2004, compared to other tax years.



**Table 22: Direct File States vs. No Direct File States
Self-Prepared Online Filing rates***

	Tax Year						
Direct File states	2000	2001	2002	2003	2004	2005	2006
IN - TY 1996	13.3%	19.5%	24.7%	29.9%	36.3%	42.5%	45.3%
MA - TY 1996	10.5%	15.0%	20.7%	24.0%	30.1%	38.2%	40.6%
DE - TY 1997	12.2%	17.7%	22.2%	27.3%	34.8%	40.4%	44.5%
IL - TY 1997	11.4%	16.3%	21.8%	26.9%	32.6%	38.5%	41.1%
NM - TY 1997	15.2%	20.2%	25.4%	30.4%	36.9%	41.7%	44.7%
CO - TY 1998	14.9%	20.5%	25.5%	30.8%	36.0%	40.6%	44.1%
KS - TY 1998	14.5%	20.3%	25.8%	30.8%	37.3%	44.0%	47.3%
SC - TY 1998	14.7%	20.6%	26.0%	31.1%	38.6%	44.7%	48.1%
ME - TY 1999	9.1%	14.0%	18.1%	22.2%	28.7%	36.5%	39.0%
MD - TY 1999	11.5%	16.2%	21.0%	25.6%	32.4%	37.3%	40.6%
MO - TY 1999	13.2%	18.6%	23.7%	28.1%	34.1%	40.2%	42.2%
MT - TY 1999	11.0%	16.1%	20.9%	26.5%	31.2%	38.5%	42.2%
NJ - TY 1999	9.5%	13.4%	16.6%	20.6%	25.6%	30.9%	34.1%
PA - TY 1999	9.9%	14.4%	18.6%	23.5%	29.4%	36.3%	39.4%
CT - TY 2000	9.4%	14.0%	18.0%	22.4%	28.6%	35.1%	38.5%
DC - TY 2000	9.7%	14.5%	19.2%	25.1%	33.4%	38.9%	43.3%
HI - TY 2000	7.6%	12.6%	17.1%	21.8%	26.2%	30.9%	33.7%

Source: ETA IMF Marketing Data Base

* The percentage is based on self-prepared all filing types only.



**Table 22: Direct File States vs. No Direct File States
Self-Prepared Online Filing rates* (continued)**

	Tax Year						
Direct File states	2000	2001	2002	2003	2004	2005	2006
ID - TY 2000	15.6%	22.4%	28.1%	35.1%	40.9%	46.0%	49.4%
IA - TY 2000	14.0%	23.8%	31.0%	36.0%	43.0%	49.1%	51.2%
LA - TY 2000	10.8%	16.6%	22.2%	28.5%	34.5%	42.0%	45.5%
NE - TY 2000	12.3%	19.8%	26.5%	32.0%	38.0%	45.7%	49.0%
VA - TY 2000	12.8%	18.8%	24.0%	30.1%	36.8%	42.4%	45.7%
WI - TY 2000	11.0%	17.9%	24.4%	29.2%	35.7%	41.8%	44.0%
CA - TY 2001	12.5%	17.1%	20.9%	25.4%	30.7%	35.4%	38.3%
OH - TY 2002	10.7%	15.2%	19.9%	25.0%	31.9%	38.8%	42.8%
UT - TY 2002	16.6%	23.5%	27.8%	33.6%	38.6%	44.5%	48.5%
WV - TY 2003	8.8%	12.9%	17.4%	21.4%	28.1%	35.7%	39.7%
Total Direct File states	11.6%	17.0%	21.8%	26.6%	32.5%	38.3%	41.5%
No direct file states	12.6%	18.2%	23.1%	28.5%	34.8%	41.0%	44.1%
National level	12.2%	17.6%	22.4%	27.5%	33.7%	39.7%	42.9%

Source: ETA IMF Marketing Data Base

* The percentage is based on self-prepared all filing types only.



Table 23: Direct File States Self-Prepared Online Filing Percentage Point increases Between Two Consecutive Tax Years*

	Percentage Point increase Between Two Consecutive Tax Years					
Direct File states	2001 - 2000	2002 - 2001	2003 - 2002	2004 - 2003	2005 - 2004	2006 - 2005
IN - TY 1996	6.2%	5.2%	5.2%	6.4%	6.1%	2.9%
MA - TY 1996	4.6%	5.7%	3.2%	6.1%	8.1%	2.4%
DE - TY 1997	5.5%	4.5%	5.1%	7.5%	5.6%	4.1%
IL - TY 1997	4.9%	5.5%	5.1%	5.7%	5.9%	2.6%
NM - TY 1997	5.0%	5.2%	5.0%	6.5%	4.8%	3.0%
CO - TY 1998	5.6%	4.9%	5.4%	5.2%	4.6%	3.5%
KS - TY 1998	5.8%	5.6%	5.0%	6.5%	6.7%	3.2%
SC - TY 1998	6.0%	5.4%	5.1%	7.5%	6.1%	3.4%
ME - TY 1999	4.9%	4.1%	4.1%	6.5%	7.8%	2.5%
MD - TY 1999	4.7%	4.8%	4.6%	6.7%	5.0%	3.3%
MO - TY 1999	5.4%	5.1%	4.4%	6.0%	6.2%	1.9%
MT - TY 1999	5.2%	4.7%	5.6%	4.8%	7.3%	3.6%
NJ - TY 1999	4.0%	3.2%	4.1%	5.0%	5.3%	3.1%
PA - TY 1999	4.5%	4.2%	4.9%	5.9%	6.9%	3.1%
CT - TY 2000	4.6%	4.0%	4.4%	6.3%	6.5%	3.3%
DC - TY 2000	4.8%	4.6%	5.9%	8.3%	5.5%	4.4%
HI - TY 2000	5.0%	4.5%	4.8%	4.4%	4.7%	2.8%

Source: ETA IMF Marketing Data Base

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* The percentage is based on self-prepared all filing types only.



Table 23: Direct File States Self-Prepared Online Filing Percentage Point increases Between Two Consecutive Tax Years* (continued)

	Percentage Point increase Between Two Consecutive Tax Years					
Direct File states	2001 - 2000	2002 - 2001	2003 - 2002	2004 - 2003	2005 - 2004	2006 - 2005
ID - TY 2000	6.8%	5.7%	7.1%	5.8%	5.1%	3.4%
IA - TY 2000	9.8%	7.2%	4.9%	7.0%	6.1%	2.1%
LA - TY 2000	5.9%	5.6%	6.3%	6.0%	7.5%	3.5%
NE - TY 2000	7.5%	6.7%	5.4%	6.0%	7.8%	3.3%
VA - TY 2000	6.0%	5.2%	6.1%	6.7%	5.6%	3.3%
WI - TY 2000	6.9%	6.4%	4.8%	6.6%	6.1%	2.2%
CA - TY 2001	4.7%	3.8%	4.4%	5.3%	4.7%	2.9%
OH - TY 2002	4.5%	4.7%	5.1%	6.9%	7.0%	4.0%
UT - TY 2002	6.9%	4.3%	5.8%	5.0%	5.8%	4.1%
WV - TY 2003	4.2%	4.4%	4.0%	6.7%	7.6%	4.1%

Source: ETA IMF Marketing Data Base

* The percentage is based on self-prepared all filing types only.



**Table 24: Direct File States vs. No Direct File States
Self-Prepared V-code Filing rates***

Direct File states	Tax Year						
	2000	2001	2002	2003	2004	2005	2006
IN - TY 1996	14.6%	15.2%	14.8%	15.5%	19.8%	21.0%	20.8%
MA - TY 1996	20.6%	21.2%	20.8%	21.9%	26.5%	27.9%	27.7%
DE - TY 1997	19.0%	19.8%	19.4%	20.0%	24.3%	24.9%	24.6%
IL - TY 1997	19.7%	20.7%	20.1%	20.4%	24.6%	26.1%	25.8%
NM - TY 1997	16.2%	18.3%	17.3%	18.6%	22.7%	23.7%	23.4%
CO - TY 1998	22.3%	23.0%	22.3%	22.8%	27.2%	28.0%	27.3%
KS - TY 1998	17.1%	17.7%	17.0%	17.6%	22.0%	23.0%	22.2%
SC - TY 1998	15.6%	15.9%	15.6%	16.5%	20.6%	20.8%	20.8%
ME - TY 1999	12.3%	12.8%	12.7%	13.5%	17.0%	18.4%	18.3%
MD - TY 1999	25.7%	26.1%	25.3%	25.9%	30.2%	31.0%	30.7%
MO - TY 1999	17.0%	18.1%	17.6%	18.1%	22.6%	24.1%	23.3%
MT - TY 1999	13.9%	14.5%	13.8%	14.5%	18.5%	20.2%	20.1%
NJ - TY 1999	26.2%	27.7%	27.8%	28.9%	34.1%	34.7%	34.2%
PA - TY 1999	17.2%	17.7%	17.6%	18.4%	22.3%	23.5%	23.0%
CT - TY 2000	22.0%	22.5%	22.0%	23.0%	27.0%	28.1%	27.6%
DC - TY 2000	23.4%	24.9%	24.3%	24.9%	27.6%	26.8%	25.7%
HI - TY 2000	22.1%	22.5%	22.7%	24.7%	31.1%	31.4%	31.3%

Source: ETA IMF Marketing Data Base

* The percentage is based on self-prepared all filing types only.



**Table 24: Direct File States vs. No Direct File States
Self-Prepared V-code Filing rates* (continued)**

	Tax Year						
Direct File states	2000	2001	2002	2003	2004	2005	2006
ID - TY 2000	15.8%	16.6%	15.6%	16.3%	20.4%	21.4%	21.2%
IA - TY 2000	14.7%	14.0%	13.1%	13.4%	17.1%	18.2%	18.1%
LA - TY 2000	15.9%	16.9%	16.7%	17.4%	21.6%	22.3%	22.0%
NE - TY 2000	15.2%	18.2%	14.4%	14.7%	18.3%	19.6%	19.7%
VA - TY 2000	21.5%	21.6%	20.8%	21.3%	25.3%	25.9%	25.7%
WI - TY 2000	14.7%	15.0%	13.9%	14.3%	17.8%	19.3%	18.9%
CA - TY 2001	26.1%	27.3%	27.0%	27.7%	32.6%	32.9%	32.3%
OH - TY 2002	16.1%	17.1%	16.8%	17.3%	20.9%	22.0%	21.6%
UT - TY 2002	20.7%	20.6%	20.2%	21.0%	26.8%	27.0%	26.4%
WV - TY 2003	10.9%	11.6%	12.0%	12.8%	16.8%	17.9%	17.5%
Total Direct File states	19.2%	21.5%	20.5%	21.1%	25.8%	26.6%	26.2%
No direct file states	19.5%	19.1%	18.8%	19.7%	23.5%	24.1%	23.7%
National level	19.4%	20.2%	19.7%	20.4%	24.5%	25.3%	24.9%

Source: ETA IMF Marketing Data Base

* The percentage is based on self-prepared all filing types only.



**Table 25: Direct File States Self-Prepared V-code Filing
Percentage Point Increases Between Two Consecutive
Tax Years***

	Percentage Point increase Between Two Consecutive Tax Years					
Direct File states	2001 - 2000	2002 - 2001	2003 - 2002	2004 - 2003	2005 - 2004	2006 - 2005
IN - TY 1996	0.6%	-0.4%	0.7%	4.3%	1.2%	-0.2%
MA - TY 1996	0.6%	-0.5%	1.2%	4.6%	1.3%	-0.2%
DE - TY 1997	0.8%	-0.4%	0.6%	4.3%	0.6%	-0.3%
IL - TY 1997	1.0%	-0.5%	0.3%	4.2%	1.5%	-0.3%
NM - TY 1997	2.1%	-1.0%	1.4%	4.1%	1.0%	-0.3%
CO - TY 1998	0.6%	-0.7%	0.6%	4.4%	0.7%	-0.6%
KS - TY 1998	0.5%	-0.7%	0.6%	4.5%	1.0%	-0.8%
SC - TY 1998	0.3%	-0.4%	0.9%	4.1%	0.1%	0.0%
ME - TY 1999	0.4%	-0.1%	0.8%	3.5%	1.3%	-0.1%
MD - TY 1999	0.4%	-0.8%	0.7%	4.3%	0.9%	-0.3%
MO - TY 1999	1.2%	-0.6%	0.5%	4.5%	1.5%	-0.7%
MT - TY 1999	0.5%	-0.7%	0.7%	4.1%	1.7%	-0.1%
NJ - TY 1999	1.5%	0.1%	1.1%	5.2%	0.6%	-0.5%
PA - TY 1999	0.5%	-0.1%	0.9%	3.9%	1.1%	-0.4%
CT - TY 2000	0.5%	-0.5%	1.1%	4.0%	1.1%	-0.5%
DC - TY 2000	1.5%	-0.7%	0.7%	2.6%	-0.8%	-1.1%
HI - TY 2000	0.4%	0.2%	2.0%	6.4%	0.3%	0.0%

Source: ETA IMF Marketing Data Base

* The percentage is based on self-prepared all filing types only.



**Table 25: Direct File States Self-Prepared V-code Filing
Percentage Point Increases Between Two Consecutive
Tax Years* (continued)**

	Percentage Point increase Between Two Consecutive Tax Years					
Direct File states	2001 - 2000	2002 - 2001	2003 - 2002	2004 - 2003	2005 - 2004	2006 - 2005
ID - TY 2000	0.8%	-1.0%	0.7%	4.1%	1.1%	-0.3%
IA - TY 2000	-0.6%	-1.0%	0.3%	3.7%	1.2%	-0.1%
LA - TY 2000	1.0%	-0.1%	0.7%	4.2%	0.7%	-0.3%
NE - TY 2000	3.0%	-3.8%	0.3%	3.6%	1.3%	0.1%
VA - TY 2000	0.1%	-0.8%	0.4%	4.0%	0.6%	-0.2%
WI - TY 2000	0.2%	-1.0%	0.4%	3.5%	1.5%	-0.4%
CA - TY 2001	1.2%	-0.3%	0.8%	4.9%	0.3%	-0.5%
OH - TY 2002	1.1%	-0.3%	0.5%	3.5%	1.2%	-0.4%
UT - TY 2002	-0.1%	-0.4%	0.8%	5.7%	0.2%	-0.6%
WV - TY 2003	0.6%	0.4%	0.8%	3.9%	1.1%	-0.3%

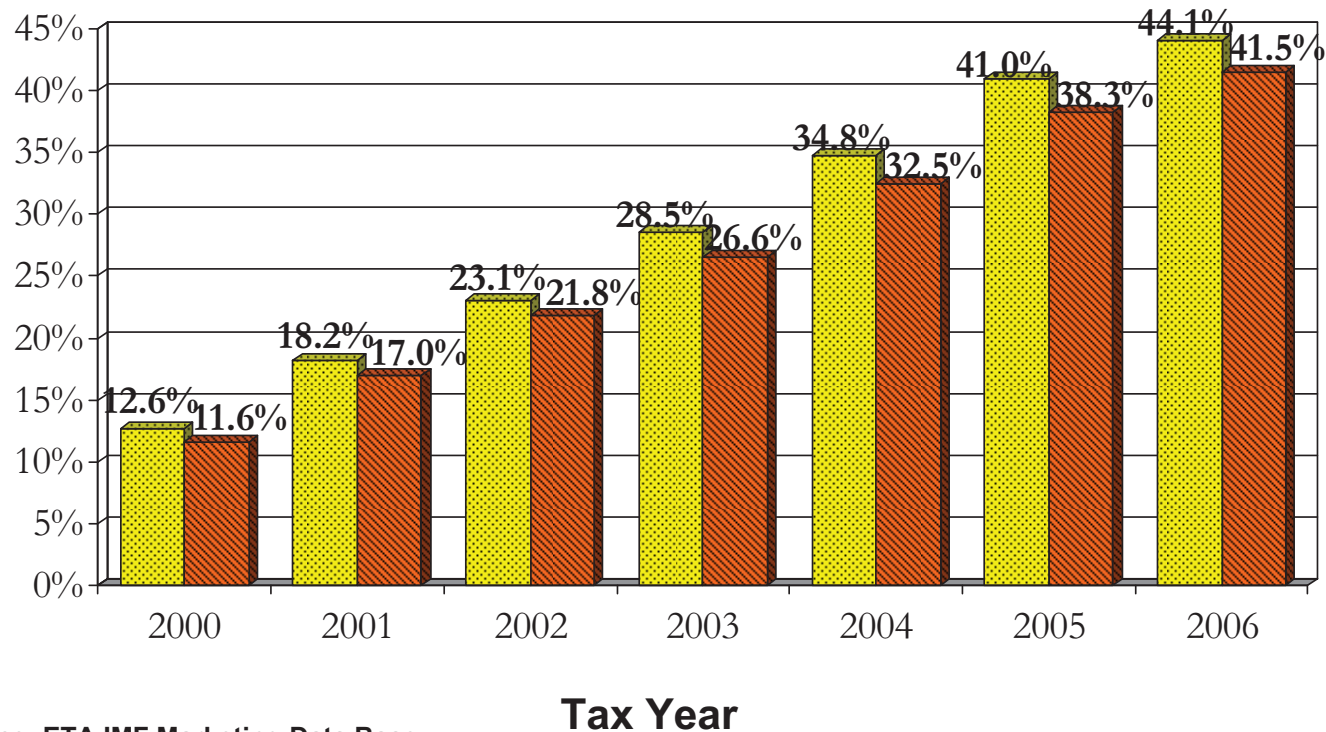
Source: ETA IMF Marketing Data Base

* The percentage is based on self-prepared all filing types only.



Self-Prepared Online Filing Rates: Direct File States vs. States with no Direct File service

■ No Direct File states ■ Direct File states



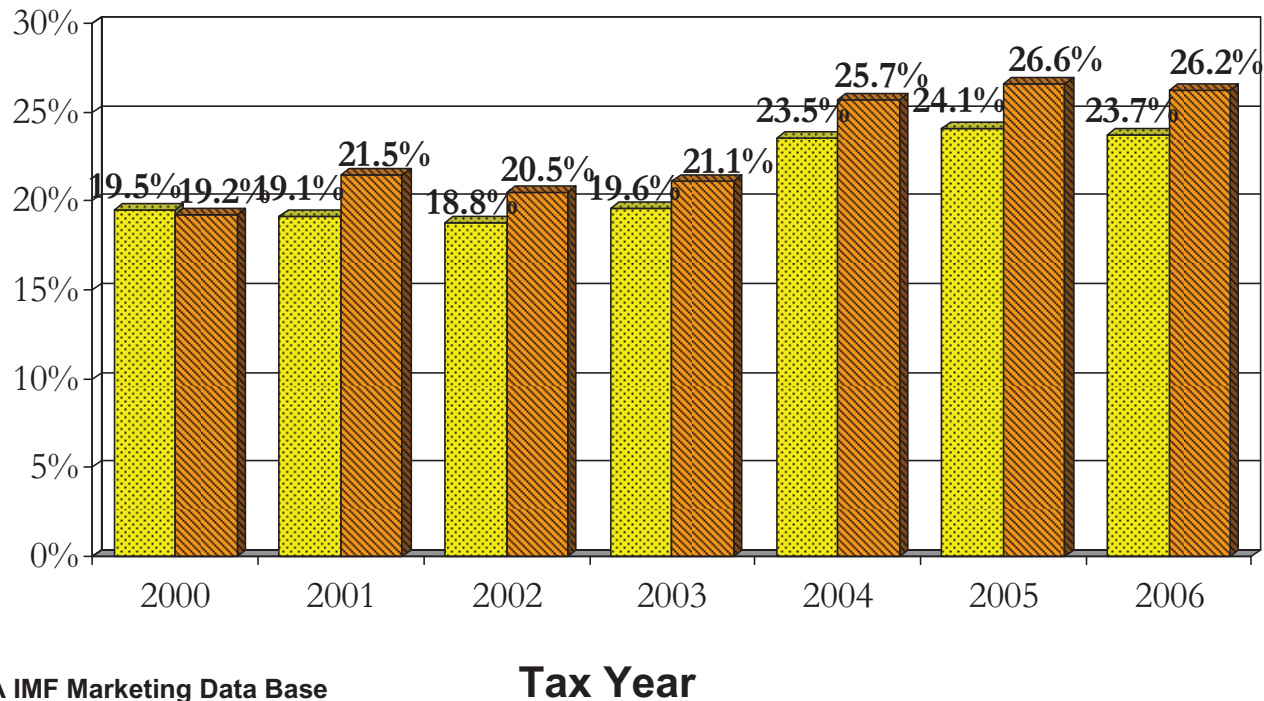
Source: ETA IMF Marketing Data Base

- In general, the Direct File states have slightly lower self-prepared Online filing rates each Tax Year. It indicates that Direct File service program may not be effective on promoting electronic filing.



Percentage of Self-Prepared V-coded Returns: Direct File States vs. States with no Direct File service

■ No Direct File states ■ Direct File States



Source: ETA IMF Marketing Data Base

- In general, the Direct File states have a slightly higher rate of self-prepared V-coded returns each Tax Year, except TY 2000.



Summary of Findings

National Inter- Modal Migration and Repeat Filing:

- In the period TY 2002 – TY 2006, repeat rates on ELF is highest for each base year (77.4% to 80.8%). Combined online filing and Free Filing repeat rates comes next highest for each base year (69.5% to 74.2%). V-code filing repeat rate comes next (same rate 67.5%; but volume 1.6 million to 1.9 million). Hand-prepared paper repeat rate is lowest compared to other filing methods (57.9% to 66.6%; but volume 17.2 million to 12.6 million).
- The migration rate to V-code filing from other filing methods is highest. The migration rate from V-code filing to ELF is much higher, compared to combined Online filing and Free Filing.
- Migration to hand-prepared paper from other filing method has lowest percentage.

RAL/RAC Indicator: (a new attribute that has not been analyzed in the past)

- Nearly 19.9 million RAL or RAC requests were made in TY 2006; 15.6 million (78.5%) of these requests were from paid-prepared returns.
- Approximately 67.3% (32.1 million) of total paid-prepared ELF returns did not request for RAL or RAC in TY 2006. About 20.7% (9.9 million) paid-prepared ELF returns requested RAL while 12.0% (5.7 million) paid-prepared ELF returns requested RAC.
- Only 0.7% (0.1 million) of total self-prepared Online returns requested RAL in TY 2006. About 22.6% (3.9 million) self-prepared Online returns requested RAC while 76.7% (13.1million) self-prepared Online returns did not request RAL or RAC.



Summary of Findings

(continued)

Impact of mandated states on paid-preparer ELF and V-code filing:

- The paid-preparer ELF filing rate of the combined mandated states in each TY (TY 2000 – TY 2006) is higher compared to the combined non-mandated states as well as the national level (see table 17).
- The paid-preparer V-code filing rate of the combined mandated states in each TY is lower compared to the combined non-mandated states as well as the national level (see table 19).

Impact of Direct File states on self-prepared Online and V-code filing:

- The combined states with no Direct File service has higher self-prepared Online filing rate compared to the combined states with Direct File service in each TY. It indicates that Direct File program may not accelerate on self-prepared Online use (see table 22).
- The self-prepared V-code filing rate in each state with Direct File service is going up in each subsequent TY and is highest in TY 2005. It indicates that Direct File program does not have impact on reducing self-prepared V-code use (see table 24).

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